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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.10.2009
COM(2009) 533

**COMMUNICATION FROM THE COMMISSION TO
THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2009-2010

{SEC(2009) 1333}
{SEC(2009) 1334}
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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Enlargement Strategy and Main Challenges 2009-2010

1. INTRODUCTION

The fifth enlargement of the EU has helped to consolidate democracy and the rule of law in Europe. It has enhanced economic opportunities and increased the weight of the EU in tackling global challenges such as climate change, competitiveness and the regulation and supervision of financial markets. Over the last five years, the enlarged EU has demonstrated its capacity to work together to address the important challenges it faces. Enlargement is one of the most effective foreign policy instruments of the EU.

The European Union's current enlargement process takes place against the background of a deep and widespread recession. The crisis has affected both the EU and the enlargement countries. Over the same period, the EU has received three new applications for membership by Montenegro (December 2008), Albania (April 2009) and Iceland (July 2009). These applications further demonstrate the EU's power of attraction and its role in promoting stability, security and prosperity.

Progress with reforms in the enlargement countries has allowed them to move through successive stages in the accession process. Accession negotiations with Croatia are nearing the final phase. Accession negotiations with Turkey have reached a more demanding stage requiring a new impetus for reform. The former Yugoslav Republic of Macedonia has made significant progress in meeting key challenges. The Commission is preparing an opinion on the application for membership from Montenegro. It is also preparing an opinion on the application of Iceland. It stands ready to prepare an opinion on the application from Albania, once invited to do so by Council. For all the Western Balkans countries concerned, further progress could result in the countries being granted candidate status when they have demonstrated their readiness.

The countries of the Western Balkans and Turkey have still, to different degrees, substantial work ahead in meeting the established criteria and conditions. The pace of reform is often slow. The international economic crisis adds to the strains. In several cases, bilateral questions unduly affect the accession process.

In the light of these challenges, the renewed consensus on enlargement, as agreed by the December 2006 European Council, continues to provide the way forward. This policy is based on the principles of consolidation of commitments, fair and rigorous conditionality and good communication with the public, combined with the EU's capacity to integrate new members. The EU has improved the quality of the enlargement process. In particular, greater focus is now given at an early stage to the rule of law and good governance.

The accession process provides strong encouragement for political and economic reform. It is in the EU's strategic interest to keep up the momentum of this process, on the basis of agreed principles and conditions.

The EU's enlargement policy allows for a carefully managed process where candidates and potential candidates approach the EU in line with the pace of their political and economic reforms as well as their capacity to assume the obligations of membership in accordance with the Copenhagen criteria. In the Western Balkans, regional cooperation remains key and constitutes a central element of the Stabilisation and Association Process.

The Treaty of Lisbon reforms the enlarged Union's institutions to enable it to adapt its policies to a fast-moving world. In particular in relation to enlargement, the Treaty will ensure an institutional framework that should allow a smooth adaptation of the Union's institutions once a new Member State joins the EU, and will amend the accession procedure, whereby the European Parliament and national parliaments will be notified of applications for membership.

The establishment of a visa-free regime for the former Yugoslav Republic of Macedonia, Montenegro and Serbia at the beginning of 2010, based on the Commission's proposal, will demonstrate that reforms bring tangible benefits for citizens. The Commission will table similar proposals for Albania and Bosnia and Herzegovina by mid-2010, provided these countries meet the conditions set.

As regards the Cyprus issue, the leaders of the Greek Cypriot and Turkish Cypriot communities are entering a decisive phase of negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission supports their efforts and provides technical advice on issues within EU competence.

The present communication sets out the progress made and the key challenges faced by the countries engaged in the enlargement process. It outlines the Commission's approach to guiding and supporting their efforts in the coming year. In addition, in an accompanying document, the Commission sets out a path for Kosovo¹, to further progress towards integration with the EU, in line with the European perspective of the region.

2. KEY CHALLENGES

The following section addresses key issues that currently affect the enlargement process. The EU, through its enlargement policy, can help tackle these challenges but the prime responsibility remains with the countries concerned.

Economic crisis

The global recession has affected, to different degrees, the economies of the Western Balkans and Turkey. The EU is assisting the enlargement countries to alleviate the impact of the crisis and pave the way for sound recovery, in coordination with the International Financial Institutions (IFIs).

Economic activity in the Western Balkans and Turkey has contracted sharply since the second half of 2008, following reduced demand for their exports, less foreign direct investment and lower cross-border lending. Fiscal positions deteriorated in all economies. Unemployment, already high in several countries, started to rise further. The economic downturn in the Western Balkans and Turkey in 2009 is of the same magnitude as the EU average, but less

¹ Under UN Security Council Resolution 1244/99.

severe than in the EU Member States that were most affected. However, in all countries the macroeconomic situation remains fragile.

The Western Balkan countries have limited scope for a strong domestic macroeconomic policy response to the crisis. There are significant constraints on monetary and fiscal policy measures because of previous pro-cyclical fiscal stances, foreign currency denominated credits and mortgages and large external imbalances. In these circumstances, the response to the crisis has by and large been appropriate in most countries of the region despite in some cases an initial lack of acknowledgement of the severity of the challenge. The perspective of EU accession has helped to retain confidence in the economies in the Western Balkan region and provided an anchor for economic policies in the recent turbulent period. At the same time some enlargement countries were able to reap the benefits of structural reforms introduced over recent years, which helped to attenuate the crisis. Improved financial regulation, for example in Croatia and Turkey, contributed to banking sector stability and resilience. Serbia and Bosnia and Herzegovina obtained IMF support, as in both countries external imbalances widened and public finances were particularly affected, due to previous expansionary policies.

The unfolding of the crisis in the enlargement countries, particularly its impact on the real economy, including on the employment and social situation, is continuing. Recovery will take time, as economic activity in the main trading partners is projected to pick up only slowly. Capital inflows to stimulate domestic demand are likely to remain subdued. Short-term measures have been taken to mitigate the social impact of the crisis for the most vulnerable parts of society. In the medium term, ensuring a sound fiscal policy is of great importance, with emphasis on more efficient and effective public spending and on investment. Employment policies and social protection measures are needed to address structural unemployment and protect vulnerable groups.

The response to the crisis needs to take into account the need for sustainable development and the challenge posed by climate change and give priority to measures leading to a safe and sustainable low-carbon economy. EU related reforms contribute to enhanced competitiveness and openness and to a legal framework conducive to trade and investment. Measures to consolidate the rule of law, including the fight against corruption, are essential for improving the business climate.

Regarding the EU's support, pre-accession assistance has been programmed to support the banking sector, infrastructure projects, SMEs and job creation, including in rural areas. €200 million in grants from the Instrument for Pre-accession Assistance (IPA) have been allocated for this purpose, which will leverage investments for at least €1 billion, co-financed by IFI loans. The Commission has proposed that the co-financing requirement for beneficiary countries in IPA assistance be reduced. The Commission provided direct budget support through IPA to Serbia to mitigate the effects of the financial and economic crisis. In addition, the Commission proposed to the Council to approve a macro-financial assistance in the form of a €200 million loan to Serbia. These possibilities are open to the other countries, if needed. In both cases the financial assistance is conditional, including upon an agreement with the IMF on sound macroeconomic policies. The Commission works closely with the IFIs, which have committed themselves to increase their lending to the Western Balkans and Turkey to more than €5 billion in 2009.

Rule of law

The Western Balkans and Turkey continue to face major challenges related to the rule of law, in particular the fight against corruption and organised crime. These issues are key for a functioning democracy and economy and largely condition the EU accession process. They also affect, sometimes in a disproportionate way, public perceptions of enlargement in the EU. Substantial efforts are being made in the enlargement countries to address the problems. The Commission will continue to use the full potential of the enlargement process to support this work and monitor closely the results.

Corruption is prevalent in many areas and affects the every-day life of citizens and the business environment. Areas which require particular attention include public procurement and privatisation, the judiciary, the financing of political parties and transparency in public administration and government. An independent and impartial judiciary and prosecutors specialised in the fight against corruption and related crimes are essential, as are a depoliticised and professional police and administration. Well drafted legislation and effective implementation are needed in areas such as public procurement, intellectual property rights, financial control, audit, and the fight against fraud.

Additional efforts are needed to fight against organised crime which remains a problem throughout the region. Law enforcement agencies will have to become more effective and to work together in order to overcome international criminal organisations.

In line with the renewed consensus on enlargement and taking into account experience from the fifth enlargement, the rule of law is a key priority which needs to be addressed by the countries concerned at an early stage of the accession process. With EU assistance, some progress has been made in putting into place effective legislation and structures to fight corruption and organised crime but rigorous implementation and enforcement of laws are necessary to achieve tangible results. Some €80 million of IPA assistance in 2009 have been allocated for strengthening the judiciary and law enforcement. The Commission has conducted peer assessment missions with Member State experts on the judiciary, the fight against corruption and organised crime in candidate countries and will intensify such missions. The use of benchmarks in the accession negotiations and the visa liberalisation dialogue has provided incentives for reform.

The Commission has continued its support for regional judicial, police and prosecutor cooperation in the fight against organised crime and corruption. The Western Balkan countries need to enhance judicial cooperation within the region to ensure an efficient functioning of their justice systems. In this regard, addressing the problem of impunity for war crimes and other serious crimes is of particular importance. To this end, the countries should review the existing restrictions in their legal frameworks for extraditions of own nationals and transfer of proceedings.

The Commission will continue to support partner countries in the fight against corruption and organised crime. However, effective and sustainable results can only be achieved with the necessary political will and real commitment by the authorities in the countries concerned. The Commission will rigorously monitor the progress achieved on the ground, focusing on results.

In most enlargement countries, freedom of expression remains an issue of concern. In general, while the main elements of the legal framework for protecting freedom of expression and the media are in place, undue political pressure on media and the rising number of threats and

physical attacks against journalists as well as some remaining legal obstacles give rise to serious concern. These issues need to be addressed as a matter of urgency.

Bilateral questions

Bilateral questions, including border issues, are increasingly affecting the enlargement process. Bilateral issues should be resolved by the parties concerned and should not hold up the accession process.

During the reporting period, the border issue between Slovenia and Croatia held back the accession negotiations with Croatia.

The negotiating frameworks with Croatia and Turkey, agreed by all Member States, stipulate that the EU expects candidate countries to resolve any border disputes in conformity with the principle of peaceful settlement of disputes in accordance with the United Nations Charter, including if necessary jurisdiction of the International Court of Justice. Finding mutually acceptable solutions, and concluding agreements, on outstanding issues with neighbouring countries is also part of the Stabilisation and Association Process.

The Commission expects all parties concerned to make every effort towards solving outstanding bilateral issues with their neighbours along these lines. Where appropriate, the Commission is ready to facilitate the search for solutions, at the request of the parties concerned. The agreement in principle between Croatia and Montenegro to settle border demarcation at Prevlaka through the International Court of Justice is encouraging.

All parties involved in such bilateral disputes have the responsibility to find solutions in a spirit of good neighbourliness and bearing in mind the overall EU interests. This will reinforce the effectiveness of the renewed consensus on enlargement which confirms that the pace of a country's progress towards the EU is determined by the pace of its reforms.

Regional cooperation

In recent years regional cooperation in South-East Europe has made important progress and the region has assumed increased ownership of the process. However, regional cooperation is not working as well as it should. Bilateral disputes and disagreements relating to Kosovo unduly affect regional cooperation. The efficiency of regional structures and initiatives also needs to be improved.

Disagreements relating to the participation of Kosovo in regional meetings, initiatives and agreements are becoming an obstacle to regional cooperation. The normal functioning of important structures such as the Central European Free Trade Agreement (CEFTA), the Regional Cooperation Council (RCC) or the Regional School for Public Administration (ReSPA) could be jeopardised, if present practices do not change. The Commission strongly encourages all parties concerned to seek practical and pragmatic solutions in order to ensure the inclusiveness of regional cooperation, without prejudice to the differing positions on the status issue. The track record in pursuing regional cooperation is assessed as part of the Stabilisation and Association Process conditionality in all stages of the enlargement process.

The RCC has been functioning for more than a year as the regionally-owned successor of the Stability Pact operating under the political umbrella of the South-East European Cooperation Process (SEECP). The RCC now needs to enhance its efforts to deliver concrete results. The RCC has a strategic role in developing regional cooperation and in identifying and addressing

needs in regional activities and structures. It also has a role to play in the programming of Community assistance related to regional cooperation. The Commission supports the work of the RCC and finances a third of the Secretariat's budget for the period 2008-2010. The Commission has engaged in a dialogue with the RCC Secretariat on the organisation's priorities, improvement of its functioning and further development. It is also exploring the arrangements for future assistance and how this could best be used to improve the RCC's efficiency.

Regional trade is particularly important in the Western Balkans' economic development and for reconciliation. It can also contribute to addressing the impact of the economic crisis. The role of the regional free trade area established through CEFTA is key. Further important steps in trade liberalisation, notably in agricultural trade, have been successfully negotiated in CEFTA but are not in force yet, while work is under way on removing technical barriers to trade. Provisions on diagonal cumulation between the EU and some Western Balkan countries have taken effect, enhancing regional trade integration. However, there is a risk of paralysis of CEFTA due to disagreements over the Kosovo status issue, which is already preventing the adoption of the protocol on agricultural trade liberalisation. Protectionist pressures as a result of the international crisis are on the increase leading to the adoption of certain measures in breach of contractual obligations. This trend should be opposed and such breaches need to be removed.

Regional cooperation has made progress in the areas of energy and transport. The Energy Community is promoting energy sector reform and improving security of supply in the region, while integrating the region into the Community energy market. Negotiations to establish a Transport Community between the EU and the Western Balkans are continuing and should be concluded by the end of this year. The European Common Aviation Area Agreement (ECAA) contributes to the growth of air traffic between the EU and the Western Balkans and gradually integrates them into the EU's internal air transport market. Regional cooperation in the fields of environment and justice and home affairs is being intensified.

The Regional School of Public Administration (ReSPA) has increased its training activities. Ratification of the International Agreement that establishes its legal personality needs to be pursued as a matter of priority in order to make the school fully operational.

The Commission, in the context of the Ljubljana process, supports the rehabilitation of cultural heritage as an important means for reconciliation also contributing to the development of local economy. At the forthcoming ministerial conference in Ljubljana in November 2009 the Commission will promote further rehabilitation activities.

The Commission will prepare an EU strategy for the Danube region by the end of 2010, following the European Council conclusions of June 2009. The enlargement countries as well as organisations concerned will be closely involved in this exercise. Regarding the Black Sea region Turkey is committed to cooperation in the region and is part of the Black Sea Synergy framework. The Commission supports Turkey's participation in the Black Sea basin co-operation programme under the European Neighbourhood and Partnership Instrument (ENPI).

The Commission will continue its support for regional cooperation activities and structures in the Western Balkans, including through greater involvement of the region in the planning and programming of the multi-beneficiary programme of IPA.

3. PRE-ACCESSION INSTRUMENTS: ADDRESSING THE KEY PRIORITIES

Achieving visa-free travel

The process of visa liberalisation for the Western Balkan countries, in line with the Thessaloniki Agenda commitment, has entered its decisive phase. Visa facilitation agreements have been implemented with all countries concerned since January 2008, in parallel with readmission agreements. The roadmaps adopted in 2008 for each country in the context of the visa liberalisation dialogue proved to be successful drivers for accelerating reforms in the relevant areas, notably document security, border and migration management, and the fight against corruption and organised crime.

Taking account of progress achieved by each country in meeting the relevant benchmarks for visa liberalisation, the Commission proposed in July 2009 that a visa-free regime be established for the former Yugoslav Republic of Macedonia, Montenegro and Serbia. Establishing a visa-free regime by the beginning of 2010 will be an important contribution to people-to-people contacts demonstrating to the citizens of the countries concerned that reforms linked to the European perspective provide tangible benefits. The Commission will table proposals for Albania and Bosnia and Herzegovina, by mid-2010, provided these countries meet the conditions set. The study on Kosovo to be adopted together with this Communication proposes that visa facilitation should continue to be promoted and a process should be launched for Kosovo, aiming at eventual visa liberalisation when the necessary reforms will have been undertaken and the conditions met.

Ensuring the quality of pre-accession preparations

Continued efforts have been made as part of the renewed consensus on enlargement to improve the quality of the process. The rigorous benchmarks laid down as conditions for opening and closing negotiating chapters have proved to be a powerful instrument to ensure compliance with existing contractual commitments and to steer difficult economic, legal and administrative reforms in the negotiating countries, thereby contributing to their early preparations for accession. A study on the financial impact of the accession of Croatia to the EU is under preparation. Future opinions on applications for membership will include estimates of the impact of accession of the applicant on key EU policy areas. Intensive political dialogue is being conducted with the countries to monitor progress, with the Partnerships as main reference documents. Economic dialogue was further intensified in the context of the crisis.

On their side, enlargement countries need to ensure that new legislation is thoroughly prepared, following the necessary consultations with stakeholders, and is properly implemented. An independent, merit-based, transparent and accountable civil service is necessary in order to facilitate the effective implementation of the *acquis*.

Bringing citizens and administrations closer to the EU

Increased participation of civil society organisations strengthens the quality of democracy and contributes to reconciliation. Their involvement in the reforms undertaken in the enlargement countries contributes to the quality of the accession process, as well as to sustaining public support for accession. The Commission, through the implementation of the civil society facility under IPA, financed the setting up of technical support offices in each beneficiary and an increasing number of short-term visits to EU institutions as well as the participation of

some 800 people in workshops in the Western Balkans and Turkey. The Commission will continue to support civil society partnerships giving priority to sectors such as culture, minorities and business associations.

Participation in Community programmes and agencies has proved useful in bringing institutions and citizens of partner countries closer to the EU. The Commission has increased its support for Community agencies to prepare enlargement countries for their participation. Following the introduction of enhanced possibilities for Community co-financing, potential candidate countries joined new programmes. The Commission will continue to support partner countries in building the necessary capacities and resources to ensure successful participation in Community programmes and agencies.

In line with the focus on basic governance issues, the Commission will continue to pay close attention to the existence of a professional and functioning public administration. It will further encourage the exchange of best practices and the sharing of expertise between countries in the field of public administration reform. To this end it will make use of all available instruments, including Twinning, TAIEX and SIGMA², and enhance contacts with other international organisations and national, regional and European training institutes for public administration.

Supporting the enlargement countries through financial assistance

In 2009, assistance continued to be provided to the Western Balkans and to Turkey through the Instrument for Pre-accession Assistance. € 1.5 billion will be committed in 2009. Particular emphasis is given to state building, good governance, the rule of law, and civil society development. IPA has continued to support cross-border cooperation and sustainable development in border areas, contributing to reconciliation and good neighbourly relations, and to EU accession preparations. The Commission will continue to focus its assistance to support pre-accession preparations based on the partnership priorities.

Candidate countries have made progress on the decentralised management of funds. The decentralisation process is well under way with Croatia and Turkey and both countries need to focus their work to fulfil all conditions attached to it. In the former Yugoslav Republic of Macedonia, the decentralisation of the IPA regional development and human resources components has been achieved, but more work needs to be done before further decentralisation can take place. The Commission continues to provide the necessary support to candidate countries to help them comply with the requirements for the decentralised management of EU funds, targeting also regional, human resources and rural development.

In other enlargement countries Commission delegations, which are now all at full strength following the closure of the European Agency for Reconstruction, are responsible for implementing EU assistance and working with the beneficiaries to ensure that EC assistance

² Medium-term assistance covering *acquis*-related areas is provided via Twinning projects that establish a framework for cooperation between administrations in the beneficiary countries and their counterparts in Member States. On-call assistance is provided by TAIEX (Technical Assistance and Information Exchange), whose activities are implemented by Member State officials. Short-term assistance in the field of horizontal governance issues and public administration reform is delivered through SIGMA (Support for Improvement of Governance and Management), an OECD programme supported by the Commission in the enlargement context.

is used efficiently and effectively. Decentralised assistance remains a medium-term objective, particularly in order to prepare for future management of cohesion policy instruments.

The Commission is supporting the development of sector strategies by the beneficiary countries, in order to facilitate a more strategic, programme-based approach to the delivery of assistance and help improve aid effectiveness.

As provided for in the IPA Regulation, the Commission has strengthened the process of donor coordination involving EU Member States, IFIs and other donors. This entails the setting and coordination of priorities and the regular monitoring of implementation on the spot.

The Commission, partner IFI partners and Member States are finalising the terms for establishing a Western Balkans Investment Framework (WBIF). This is a major step which will facilitate support to investments in infrastructure, SMEs and energy efficiency. It aims to pool resources from the Commission, the partner IFIs, the Member States and other donors and to link these grant resources with loans from international financial institutions for financing priority projects in the sectors covered. To this effect, the Commission has set aside more than € 100 million in grants making it the largest contributor. Overall the WBIF should generate loans totalling more than € 1 billion over the next years.

Working together on climate change

The EU will strengthen its regular dialogue on climate change with candidate and potential candidate countries, in particular through the future Regional Environmental Network for Accession (RENA). The Commission expects all enlargement countries to support the EU's objective of reaching an ambitious and comprehensive agreement at the Copenhagen Conference on climate change at the end of 2009. Over the last years, the Commission has provided € 120 million of grants to IFI facilities which will generate investments of about € 600 million into energy efficiency projects, thereby helping the Western Balkans and Turkey to reduce greenhouse gas emissions. The Commission will continue to support initiatives relating to climate change in the enlargement countries.

Communicating enlargement

Better communication with the public is a key principle of the renewed consensus on enlargement. For the EU's enlargement process to succeed, it is essential to listen to citizens and address their concerns and questions. EU public opinion on future enlargement is influenced by perceptions of past enlargements. The Commission presented a study on the economic achievements and challenges of the fifth EU enlargement on the occasion of its fifth anniversary which assessed that enlargement contributed to growth and made the EU a stronger player in the world economy. The Commission is promoting an informed public debate on its impact and has organised a series of events to mark the anniversary of the fifth enlargement which coincided with the 20th anniversary of the fall of the iron curtain. It has launched a dedicated website and has co-produced audio-visual material.

Ensuring public support remains a crucial goal for the EU's enlargement policy and the Commission will continue to implement an active communication policy in this regard. In particular, it will support and supplement efforts by Member States, which have a key responsibility in this regard, as well as partner countries and it will target communication activities at opinion formers, in particular civil society organisations and journalists, as well as

at youth. Particular efforts will be undertaken to foster awareness in the EU about the cultures and ways of life of the enlargement partners.

4. PROGRESS IN THE ENLARGEMENT COUNTRIES AND AGENDA FOR 2009-2010

4.1. Steering the candidate countries and potential candidates towards the EU

The **Western Balkans** have moved closer to EU membership over the past year, as the region made progress, albeit unevenly, in reforms and in meeting established criteria and conditions. Substantial progress was made towards visa liberalisation, leading to the Commission's proposal of July 2009 to lift the visa obligation for the former Yugoslav Republic of Macedonia, Montenegro and Serbia. The network of Stabilisation and Association Agreements has been extended further. Two membership applications have been received from the region.

For all the Western Balkans countries concerned, further progress could result in the countries being granted candidate status when they have demonstrated their readiness. A satisfactory track record in implementing obligations under the SAA, including trade-related provisions, is an essential element for each country's progress towards EU membership.

The following section summarises progress and sets out the agenda for 2009-2010 for the **enlargement countries**.

Croatia

Croatia continued to make progress on key political reforms. Croatia continues to meet the political criteria and made progress in most areas, including intensified efforts in the field of rule of law. The Accession Partnership priorities have been largely addressed.

In its communication Enlargement Strategy and Main Challenges 2008-2009³ the Commission presented an indicative road map for reaching the final stage of accession negotiations. The roadmap has galvanised efforts in Croatia to meet the benchmarks for opening and closing chapters according to the indicative timetable of the roadmap. Delays in Croatia in certain areas meant that some chapters have not progressed in line with the roadmap. Nonetheless, preparations have advanced substantially across the board so that technical negotiations are now nearing their final phase.

Croatia was strongly affected by the economic crisis but its impact has been mitigated by a resilient banking sector and strong foreign reserves. Enhanced structural reforms and the adoption of a credible medium-term fiscal strategy would be essential to improve its competitiveness.

The border issue between Slovenia and Croatia held back the accession negotiations, such that a substantial number of chapters could not be opened or closed until October 2009, although technically finalised earlier. The Commission has provided its facilitation services to settle this dispute, which should remain a bilateral issue. Intensive efforts by the Commission, supported by the Trio of Presidencies, have been made over six months, which paved the way for a political agreement between the two parties reached in September 2009. The

³ COM(2008) 674.

Commission welcomes the recent progress that led to a substantial number of chapters being opened or provisionally closed at the accession conference in October. Bilateral issues should not hold back the accession negotiations.

Croatia will need to step up reform efforts in the area of judiciary and fundamental rights, in particular as regards the independence and efficiency of the judiciary, the fight against corruption and organised crime, minority rights, including refugee return, and war crimes trials. Public administration reform requires particular attention. Croatia also needs to ensure that all necessary steps are taken by the Croatian government to settle the issue of access for ICTY to important documents. The Commission is preparing a financial package for the accession of Croatia. Croatia needs to enhance efforts to establish required instruments for the management and control of Community financial instruments. The Commission recommends that the Council set up the ad-hoc technical working group for the drafting of the Accession Treaty, on the basis of texts prepared by the Commission. If Croatia meets all outstanding benchmarks in time, the accession negotiations, including on any transitional arrangements, could be concluded next year.

The former Yugoslav Republic of Macedonia

Since the adoption of the Commission's opinion⁴ and achieving candidate status in 2005 the former Yugoslav Republic of Macedonia has consolidated the functioning of its democracy and ensured the stability of institutions guaranteeing the rule of law and respect of fundamental rights. This work needs to be continued.

⁴ In its opinion - COM(2005) 562 - on the country's application for membership adopted in November 2005, the Commission concluded the following: *'The former Yugoslav Republic of Macedonia is a functioning democracy, with stable institutions, generally guaranteeing the rule of law and respect of fundamental rights. The country signed a Stabilisation and Association Agreement (SAA) in 2001 and, since then has generally fulfilled the related obligations in a satisfactory manner. The former Yugoslav Republic of Macedonia has successfully implemented the legislative agenda of the Ohrid Framework Agreement which contributed to major political and security improvements in the country. This legislation now needs to be fully enforced. The country remains committed to regional cooperation. The former Yugoslav Republic of Macedonia needs to make additional efforts in particular in the fields of electoral process, police reform, judiciary reform and the fight against corruption. On the basis of the overall progress of reforms achieved, the Commission considers that the country is well on its way to satisfy the political criteria set by the Copenhagen European Council in 1993 and the Stabilisation and Association Process.'*

The country has substantially addressed the key priorities of the accession partnership⁵. The conduct of the presidential and local elections of March and April 2009 was in line with most international standards. The functioning of parliament has improved, in particular through the introduction of parliamentary rules of procedure and a new Law on Parliament. The Law on Police has been implemented, notably through the appointment of regional and local police commanders, and police reform has been further pursued through the adoption of the Law on Internal Affairs. The legislative part of the judicial reform strategy has been completed, the new courts and judicial bodies are operational and overall efficiency has been improved. Good progress has been made in the fight against corruption, through prosecution of high-level cases, strengthening of the legal framework notably through the adoption of the amended Law on Financing Political Parties and enhancing the capacity of anti-corruption institutions. The Law on the Civil Service has been amended to strengthen the authority of the civil-service agency and is an additional step towards a merit-based career system. In the field of employment active labour market measures have been stepped up and the business environment was improved, including by strengthening regulatory agencies.

The country fulfils the commitments under the Stabilisation and Association Agreement. On this basis, the Commission in October made a proposal on the transition to the second stage of the Association, pursuant to article 5 of the SAA.

The country was affected by the economic crisis but the slow-down of growth was mitigated by a stable banking sector and sustained private consumption. Sound fiscal policy and addressing structural unemployment would improve the competitiveness of the economy.

The name issue with Greece remains unresolved. The country is engaged in talks under the auspices of the UN on resolving it. Actions and statements which could negatively affect good neighbourly relations should be avoided. Maintaining good neighbourly relations, including a negotiated and mutually accepted solution to the name issue, under the auspices of the UN, are essential.

Montenegro

Political reforms have continued in Montenegro and the parliamentary elections of March 2009 met almost all international standards but remaining shortcomings need to be addressed.

⁵ The key priorities of the accession partnership with the former Yugoslav Republic of Macedonia ("benchmarks") are the following:

- Ensure proper implementation of all commitments undertaken in the Stabilisation and Association Agreement.
- Promote a constructive and inclusive dialogue, in particular in areas which require consensus between all political parties, in the framework of the democratic institutions.
- Ensure effective implementation of the law on police.
- Establish a sustained track record on implementation of judiciary reforms and strengthen the independence and overall capacity of the judicial system. Implement the reform of the prosecution and finalise the appointment of the Judicial Council.
- Establish a sustained track record on implementation of anti-corruption legislation.
- Ensure that recruitment and career advancement of civil servants is not subject to political interference, further develop a merit-based career system and implement fully the law on civil servants.
- Reduce impediments to employment creation and address in particular youth and long term unemployment.
- Enhance the general business environment by further improving the rule of law, strengthening the independence of regulatory and supervisory agencies, speeding up legal procedures and continuing registration of property rights.

Some progress was achieved regarding judiciary reform. The implementation of the Interim Agreement is progressing smoothly on the whole.

Montenegro was affected by the economic crisis but its impact was mitigated by a good tourist season and anti-crisis measures. The continuation of structural reforms is key for further improving competitiveness.

Montenegro applied for EU membership in December 2008 and in April 2009 the Council invited the Commission to submit its opinion. Work on the preparation of the opinion is ongoing. Montenegro will need to demonstrate concrete results regarding consolidation of the rule of law, particularly on judicial reform and the fight against corruption. Administrative and enforcement capacity require further strengthening.

Albania

Albania has made progress on key political reforms. The parliamentary elections of June 2009 met most international standards but further efforts are needed to address the shortcomings identified. The implementation of the Stabilisation and Association Agreement, which entered into force this year, is progressing smoothly on the whole.

Albania has been so far affected by the economic crisis only to a limited extent. Continuing with structural reforms and upgrading the infrastructure is key for the country's competitiveness.

Albania applied for EU membership in April 2009. In July 2009, the Council stated that it would return to Albania's application for membership once the Albanian election procedure had been completed. The Commission stands ready to start preparations on its opinion once invited by Council. Albania needs to make progress, in particular regarding the rule of law and notably the fight against corruption, as well as the proper functioning of state institutions, especially the independence of the judiciary. Administrative and enforcement capacity require further strengthening.

Bosnia and Herzegovina

In Bosnia and Herzegovina the implementation of the Interim Agreement has been satisfactory, overall. However, the country's progress in addressing key reforms has remained very limited. The domestic political climate has deteriorated, and challenges to the proper functioning of institutions as well as inflammatory rhetoric have continued. The requirements for a smooth transition from the Office of the High Representative (OHR) towards a reinforced EU presence in the country have not been fully met. In this context, the EU has agreed to arrangements for strengthening the office and the mandate of the EU Special Representative (EUSR) and is considering a 'personal union/double-hatting arrangement' of the EUSR and the Head of the Commission Delegation, in accordance with the Treaties and respecting the institutional balance.

Bosnia and Herzegovina urgently needs to speed up key reforms. A shared vision on the overall direction of the country by its leadership and the political will to meet European integration requirements are necessary if progress is to be made. Bosnia and Herzegovina also needs to meet the conditions which have been set for the closure of the OHR. The European Union would not be able to consider an application for membership by Bosnia and Herzegovina until the OHR has been closed.

Bosnia and Herzegovina will need to reform its constitutional framework to permit its institutions to function effectively before the Commission can recommend the granting of candidate country status. In particular the country will need to be in a position to adopt, implement and enforce the laws and rules of the EU. The Commission calls upon Bosnia and Herzegovina to proceed with the necessary constitutional amendments without further delay. The Commission stands ready to support the efforts of Bosnia and Herzegovina in achieving the evolution of its constitution and the implementation of other key reforms, which would allow the country to advance in its accession process.

Bosnia and Herzegovina was strongly affected by the economic crisis and turned to the IMF for financial assistance. The country needs to resume structural reforms in the economy and ensure sound public finances.

Serbia

Serbia has demonstrated its commitment to bringing the country closer to the EU by building a track record in implementing the provisions of the Interim Agreement with the EU and by undertaking key political reforms in line with European standards. Serbia has also made efforts to implement an ambitious programme for European integration. Serbia has the administrative capacity to make substantial progress towards the EU. This needs to be used to press ahead with the reform agenda, leading to tangible results in priority areas such as strengthening the rule of law.

Serbia was strongly affected by the economic crisis and turned to the IMF and the EU for financial assistance. The country needs to accelerate economic reforms and ensure sustainability in the public finances.

Cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has further improved but Ratko Mladić and Goran Hadžić who have been indicted remain at large. In light of sustained cooperation with the ICTY and the renewed commitment of Serbia to the European integration process, the Commission considers that the Interim Agreement should now be implemented by the EU. Serbia needs to demonstrate a more constructive attitude towards Kosovo's participation in regional trade and cooperation. Cooperation with the EULEX rule of law mission has begun but these efforts need to be further strengthened, especially with respect to the operation of EULEX in the north of Kosovo.

Kosovo

In Kosovo stability has been maintained but remains fragile. Following the reconfiguration of the international presence, the EU's rule of law mission EULEX has been deployed throughout Kosovo and is fully operational. The authorities have facilitated the deployment of EULEX in Kosovo. Recent incidents that resulted in damage to EULEX property give rise to concerns. Kosovo needs to ensure continuing support for EULEX's work. Kosovo has joined the IMF and the World Bank. Kosovo adopted some key legislation. However, major challenges remain, including the rule of law, the fight against corruption and organised crime, the strengthening of administrative capacity, the protection of the Serb and other minorities, and enhancing dialogue and reconciliation between the communities. The EU encourages Kosovo Serbs to participate in Kosovo's institutions and in the municipal elections in November. Kosovo needs to take a constructive approach towards regional cooperation, including its participation in regional trade.

Following the 2008 Donor Conference, Kosovo benefits from significantly increased financial assistance. Through IPA almost €500 million has been earmarked for Kosovo for the years 2007-2011. Kosovo was moderately affected by the economic crisis. It is essential that Kosovo's authorities deliver on their commitments as regards fiscal discipline, public expenditure management and economic and social policy reform.

The EU supports the economic and political development of Kosovo through a clear European perspective, in line with the European perspective of the region. Improving living conditions is crucial for the well-being of Kosovo's population and stability in the wider region. Against this background, and in line with the 2008 Enlargement Strategy and the Council conclusions of December 2008, the Commission, in parallel with the present Strategy Paper, has approved a Communication entitled "Kosovo* – Fulfilling its European Perspective". This study identifies the Community instruments the EU can mobilise to promote Kosovo's political and socio-economic development. In particular, it proposes a structured approach to bring Kosovo's citizens closer to the EU, including through a visa dialogue with the perspective of eventual visa liberalisation. The Commission furthermore proposes to extend the autonomous trade measures and, once Kosovo meets the relevant requirements, will propose negotiating directives for a trade agreement in due time.

Turkey

Turkey has continued to express its commitment to the EU accession process. Free and fair local elections have been held. Positive steps have been taken in the areas of the judiciary, with the adoption of the judiciary reform strategy and action plan, civil-military relations and cultural rights. In particular, parliament amended legislation to allow civilian courts to try military personnel in peace time. The government has opened a wide-ranging public debate with a view to addressing the Kurdish issue, and the public television started operating a channel which broadcasts entirely in the Kurdish language.

Regarding the accession negotiations, additional chapters have been opened. Turkey adopted a National Programme for the Adoption of the Acquis. The appointment of a full-time Chief Negotiator should help streamline the efforts of the government in the context of EU-related reforms. This is especially important as the accession negotiations reach a more demanding phase requiring Turkey to step up its efforts in meeting benchmarks to allow for further progress in the opening of chapters.

Turkey was strongly affected by the economic crisis but its impact was mitigated by a resilient banking sector and anti-crisis measures. The continuation of structural reforms combined with a prudent fiscal policy is essential to further enhance its competitiveness.

The investigation of the alleged criminal network Ergenekon has led to serious criminal charges, involving military officers and nationalist circles. This case is an opportunity for Turkey to strengthen confidence in the proper functioning of its democratic institutions and the rule of law. It is important that proceedings in this context fully respect the due process of law, in particular the rights of defendants.

The pace of reforms now needs to be significantly stepped up. Concerns remain in a number of areas, including freedom of expression, freedom of the press, freedom of religion, trade

* Under UN Security Council Resolution 1244/99

union rights, civilian oversight of the military and women's rights and gender equality. Much more needs to be done regarding impunity for those involved in torture and ill-treatment. The government initiative on the Kurdish issue should lead to concrete measures guaranteeing the Turkish citizens, irrespective of their origin, full rights and freedoms and significantly improve the situation in the South-east. Better dialogue among political parties will be beneficial to the reform process, including the work on Constitutional reform.

Turkey has expressed support for the ongoing negotiations under UN auspices between the leaders of the Greek Cypriot and Turkish Cypriot communities to reach a comprehensive settlement of the Cyprus problem. However, there has been no progress towards normalisation of bilateral relations with the Republic of Cyprus. Turkey has not fully implemented the Additional Protocol to the Association Agreement and has not removed all obstacles to the free movement of goods, including restrictions on direct transport links with Cyprus. It is urgent that Turkey fulfils its obligation of full non-discriminatory implementation of the Additional Protocol and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. The EU will continue to follow up and review progress made on issues covered by the Declaration of 21 September 2005, in accordance with the Council Conclusions of 11 December 2006.

A considerable number of formal complaints were made by Greece about continued violations of its airspace by Turkey, including flights over Greek islands.

Good neighbourly relations remain key.

Turkey plays a key role in regional security and the promotion of dialogue between civilisations. Turkey has taken initiatives to contribute to stabilisation in the Southern Caucasus, the Middle East and other regions. It participates in a number of EU peace-keeping missions. Significant diplomatic efforts to normalise relations with Armenia were made, resulting in the signature of protocols for the normalisation of relations in October 2009. It is important that these protocols are swiftly ratified by both countries.

In July 2009 Turkey signed the Intergovernmental Agreement on the Nabucco gas pipeline. This project is an important strategic step towards closer energy cooperation between the EU, Turkey and other States in the region as well as towards the diversification of energy sources. The timely completion of the Southern Gas corridor, through notably the swift implementation of the Nabucco Intergovernmental Agreement, remains one of the EU's highest energy security priorities.

The EU accession process provides a strong incentive for Turkey to pursue reforms, strengthen democracy and human rights and further modernise the country. The pace of reforms in Turkey continues to be the key consideration in taking forward this process.

4.2. Iceland

Iceland applied for EU membership on 16 July 2009 and on 27 July the Council invited the Commission to prepare its opinion. Iceland's application will be assessed according to the principles set out in the Treaty, the criteria defined by the Copenhagen European Council in 1993 as well as the December 2006 European Council conclusions on the renewed consensus for enlargement, which provide for rigorous and fair conditionality, based on the own merits principle.

Iceland is a well-established democracy. It has been severely affected by the global economic and financial crisis. It is largely integrated into the internal market through its participation in the European Economic Area. It is also a member of the Schengen Area. Iceland is an important partner for the EU in the framework of the Northern dimension and in view of the developing Arctic policy. The Commission will take account of these elements in its opinion. Iceland's track record in implementing its obligations under the EEA Agreement will be an essential element of the Commission's assessment. The Commission is preparing an amendment to the IPA-Regulation to include Iceland as a beneficiary country

5. CONCLUSIONS AND RECOMMENDATIONS

Based on the above analysis, the Commission puts forward the following **conclusions** and **recommendations**:

1. The accession process gives strong encouragement to political and economic reform in the enlargement countries and reinforces peace and stability in Europe. It is in the EU's interest to keep up the momentum of the enlargement process, on the basis of the principles and conditions agreed and the renewed consensus on enlargement.
2. The enlargement countries have not escaped the effects of the global economic recession. The EU is helping them to alleviate the impact of the crisis and prepare for sound recovery. The implementation of EU-related reforms underpins this.
3. The rule of law, in particular the fight against corruption and organised crime, but also strengthening administrative capacities, remains a major challenge which the enlargement countries need to address. The Commission will continue to use all instruments of the enlargement process in order to support them in this endeavour. Problems affecting the freedom of expression and the media need to be tackled as a matter of urgency.
4. Bilateral issues should not hold up the accession process. Bilateral disputes need to be resolved by the parties concerned, who have the responsibility to find solutions in a spirit of good neighbourliness and bearing in mind the overall EU interests.
5. Regional cooperation in South-East Europe has improved, with countries in the region assuming increased ownership of the process. However, the efficiency of regional structures and initiatives needs to be improved. Disagreements over Kosovo⁶ should not obstruct regional cooperation.
6. The establishment of a visa-free regime for the former Yugoslav Republic of Macedonia, Montenegro and Serbia at the beginning of 2010, based on the Commission's proposal, will demonstrate that reforms bring tangible benefits for citizens. The Commission will table proposals for Albania and Bosnia and Herzegovina by mid-2010, provided these countries meet the conditions set in the roadmaps. Free movement of persons and exchanges, in particular young citizens and students, are essential for helping Kosovo to build viable economic structures. Against this background visa facilitation should continue to be promoted and a

⁶ Under UN Security Council Resolution 1244/99.

process should be launched for Kosovo, aiming at eventual visa liberalisation when the necessary reforms will have been undertaken and the conditions met.

7. Croatia has made good progress in meeting the benchmarks set in the accession negotiations. This progress was noted by the Accession Conference in October 2009, following the political agreement of September 2009 between Slovenia and Croatia on the handling of the border issue. This was a significant step forward giving new impetus to the accession negotiations. Croatia needs to pursue reform efforts, in particular on the judiciary and public administration, the fight against corruption and organised crime, minority rights, including refugee return, war crimes trials. Croatia needs to settle the issue of access to documents for ICTY. If Croatia meets all outstanding conditions, the accession negotiations could be concluded next year.
8. The former Yugoslav Republic of Macedonia has substantially addressed the key priorities of the accession partnership. On this basis, and in view of the overall progress of reforms, the Commission considers that the country sufficiently fulfils the political criteria set by the Copenhagen European Council in 1993 and the Stabilisation and Association Process. The country has moved closer towards becoming a functioning market economy and has made progress in a number of areas linked to its ability to take on the obligations of membership.

In the light of the above considerations and taking into account the European Council conclusions of December 2005 and December 2006, the Commission recommends that negotiations for accession to the European Union should be opened with the former Yugoslav Republic of Macedonia.

Maintaining good neighbourly relations, including a negotiated and mutually accepted solution to the name issue, under the auspices of the UN, remains essential.

9. Montenegro applied for EU membership in December 2008 and in April 2009 the Council invited the Commission to submit its Opinion. Parliamentary elections met almost all international standards but some shortcomings remain to be addressed. Strengthening administrative capacity and consolidating the rule of law remain major challenges for Montenegro.
10. Albania applied for EU membership in April 2009 and the Commission stands ready to prepare its Opinion, once invited to do so by the Council. Parliamentary elections met most international standards but shortcomings remain to be addressed in future elections. Strengthening the rule of law and ensuring the proper functioning of state institutions remain major challenges.
11. Bosnia and Herzegovina urgently needs to speed up key reforms. A shared vision of the overall direction of the country by its leadership, and the political will to meet European integration requirements, are necessary if progress is to be made. Bosnia and Herzegovina also needs to meet the conditions which have been set for the closure of the OHR. The European Union would not be able to consider an application for membership by Bosnia and Herzegovina until the OHR has been closed. Bosnia and Herzegovina will need to reform its constitutional framework to permit its institutions to function effectively before the Commission could recommend the granting of candidate country status. In particular the country will

need to be in a position to adopt, implement and enforce the laws and rules of the EU.

12. Serbia has demonstrated its commitment to EU integration by building up a track record in implementing the provisions of the Interim Agreement with the EU and by undertaking key political reforms in line with European standards. Given Serbia's sustained cooperation with the ICTY and its renewed commitment to the European integration process, the Commission considers that the Interim Agreement should now be implemented by the EU. Strengthening the rule of law and accelerating economic reforms remain important. Serbia needs to demonstrate a more constructive attitude towards Kosovo's participation in regional trade and cooperation. Cooperation with the EULEX rule of law mission has begun but further efforts are needed, especially with respect to the operation of EULEX in the north of Kosovo.
13. Stability has been maintained in Kosovo but remains fragile. The EU's rule of law mission EULEX has been deployed throughout Kosovo and is fully operational. Kosovo faces major challenges, including the rule of law, the fight against corruption and organised crime, the strengthening of administrative capacity, the protection of Serb and other minorities, and enhancing dialogue and reconciliation between the communities. Kosovo needs to take a constructive approach towards regional cooperation and to ensure continuing support for EULEX's work. The Commission is proposing ways to mobilise Community instruments to further Kosovo's political and socio-economic development, notably in the areas of visas and trade, and to progress, in line with the European perspective of the region, towards integration with the EU in the context of the Stabilisation and Association Process. On trade, the Commission proposes to extend the autonomous trade measures and, once Kosovo meets the relevant requirements, will propose negotiating directives for a trade agreement in due time.
14. Turkey needs to build on the renewed political reform efforts which have begun. The accession negotiations have reached a more demanding stage requiring Turkey to step up its efforts in meeting relevant conditions. The EU accession process provides a strong incentive for Turkey to strengthen democracy and human rights, further modernise the country and bring the country closer to the EU. Turkey plays a key role in regional security, energy supply and the promotion of dialogue between civilisations. Significant diplomatic efforts to normalise relations with Armenia were made, resulting in the historic signature of protocols for the normalisation of relations in October 2009. Turkey needs to ensure full, non-discriminatory implementation of the Additional Protocol to the Association Agreement and to make progress towards the normalisation of relations with the Republic of Cyprus. The EU will continue to follow up and review progress made on the issues covered by the Declaration of 21 September 2005, in accordance with the Council Conclusions of 11 December 2006. Good neighbourly relations remain key.
15. As regards the Cyprus issue, the leaders of the Greek Cypriot and Turkish Cypriot communities are entering a decisive phase of negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission supports their efforts and provides technical advice on issues within EU competence. It calls on both leaders to strengthen their efforts to bring the settlement talks to a successful

end as soon as possible and on Turkey to contribute in concrete terms to such a comprehensive settlement of the Cyprus issue.

16. Iceland has applied for EU membership and the Commission is preparing the opinion requested by Council. Iceland's application will be assessed according to the principles set out in the Treaty and the criteria defined by the Copenhagen European Council in 1993, as well as the December 2006 European Council conclusions on the renewed consensus for enlargement. Iceland is closely integrated with the EU in several areas, through its membership of the European Economic Area and Schengen.
17. Public support for enlargement is crucial. It is important for the authorities in the member states, partner countries and EU institutions to foster public understanding of the EU's enlargement policy.

ANNEX

Conclusions on Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Kosovo⁷, Turkey

Albania

The Stabilisation and Association Agreement (SAA) entered into force in April and implementation is progressing smoothly on the whole. Albania has continued to make progress in addressing the **political criteria** in line with the European Partnership. The parliamentary elections in June were assessed by the OSCE/ODIHR as meeting most international standards but further efforts are needed to address recommendations in future elections. Tangible progress took place on voter registration and in the legal framework but shortcomings on vote counting procedures were noted. Electoral reform was completed and a new Electoral Code adopted in time for the elections. Improved voters' lists were compiled on the basis of the new civil registry, thus meeting to a large extent this key European Partnership priority. The distribution of ID cards, to enable citizens without passports to vote, was largely completed. However, the culture of dialogue between the main political parties deteriorated during the electoral period. The political dialogue, a key European Partnership priority, needs to get back on track.

There was some progress on strengthening *democracy and the rule of law*. The main OSCE/ODIHR recommendations from previous elections were largely addressed as part of the overall electoral reform. *Parliament* adopted a number of important laws to approximate the EU acquis. However, the culture of dialogue took backstage to party-political agendas and key reforms were delayed. Albania has made some progress in strengthening its *government* structures to coordinate European integration. Nevertheless, further strengthening of capacity and strategic planning remains necessary. In the area of *public administration*, appointments in breach of the civil service law continued, mainly through the use of temporary contracts. The lack of transparency and accountability in appointments remain a key European Partnership priority to be addressed. Significant efforts are needed to establish an independent, efficient and merit-based civil service, free of political interference. Full enforcement of the civil service law, strengthening of institutional capacity at the Department of Public Administration and implementation of the strategy for public administration reform will be key to progress.

Little progress took place in reforming the *judicial system*. The private bailiff system was established. However, a comprehensive reform strategy for the judiciary remains to be adopted. The lustration law was adopted without full consultation and consensus by a simple majority vote in parliament. The implementation of the lustration law was then suspended by the Constitutional Court. The legal framework for judicial reform has not been completed. The adoption of major legislative acts on the functioning of the High Court of Justice and the administrative courts is pending. The problem of backlogs continues and court infrastructure remains inadequate. Attempts by the executive to limit the independence of the judiciary remain a serious concern. The postponement on procedural grounds of high-level cases, such as the Gërdec trial, raised questions about the impartiality of the judiciary. Overall, the judiciary continued to function poorly and much remains to be done to meet this key European Partnership priority by ensuring its independence, transparency and efficiency.

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Under UN Security Council Resolution 1244.

The government has continued its efforts to prevent and fight *corruption*. The implementation of the anti-corruption strategy and action plan started, which is a key European Partnership priority. Legislation was introduced requiring the use of on-line electronic procedures for public procurement. Efforts have been made to increase transparency in some sectors such as education. These are positive developments. However, corruption remains prevalent in many areas and is a particularly serious problem. More political will, including as regards high-level cases, is needed to uproot the culture of impunity which continues to prevail. Overall, the institutional arrangements and inter-agency coordination in the fight against corruption require further strengthening. Much work is still needed on all aspects of the issue, including judicial accountability and transparency of political party funding.

Some progress has continued regarding *human rights and the protection of minorities*, where the legal framework is broadly in place. However, further efforts are needed to improve the enforcement of existing legislation in a number of fields.

As regards *civil and political rights*, action was taken to address cases of *ill treatment* in pre-trial detention. New *prisons* and pre-trial detention centres for juveniles and mental health patients have been built. The probation system is operational. However, poor detention standards, exacerbated by overcrowding remain a serious concern, particularly in older prisons. Further efforts are required to protect human rights and implement the recommendations of the People's Advocate. Regarding *access to justice*, access to legal aid for vulnerable groups and some minorities remains a concern.

The legal framework to protect the *freedom of expression* is in place. However, pressure against some media operators took place including their eviction from premises owned by the government. The legal framework on media policy remains to be completed and existing legislation needs to be implemented. Significant efforts are needed to complete the legal framework, improve the transparency of media ownership and to strengthen the independence of the public broadcasting regulator. The respect of the freedom of assembly and religion remains satisfactory. The government stepped up its efforts to provide support for *civil society*. Efforts have been made to involve civil society in the drafting of key legislation. However, the participation of civil society organisations in policy-making requires further strengthening.

Progress has been limited in the area of *economic and social rights*. There has been some progress on strengthening *women's rights*. The Electoral Code includes a 30% gender quota which was enforced by most political parties in the June elections. A National Council on gender equality was established. However, existing legislation to protect women against all forms of violence is not fully implemented. Domestic violence remains an issue of serious concern. There has been continued progress on *children's rights*. The application of alternative sentencing for juveniles has increased. However, more efforts are needed to address child labour and school drop-out rates, particularly for Roma children. Support mechanisms for *socially vulnerable and persons with disabilities* remain limited. Better co-ordination of government agencies is needed. Further efforts are needed to strengthen *labour and trade union rights*. Lack of progress in amending labour legislation continues to hamper the development of social dialogue. Moreover, the anti-discrimination law remains to be adopted.

There has been little progress on consolidating *property rights*, a key European Partnership priority. Land valuation maps, which are needed to compensate former owners, have been completed for the whole country. However, much more effort is needed on all aspects of this

issue. Unresolved property issues continue to undermine the development of a functional land market, to keep foreign investment below potential and to provide opportunities for corruption. The adoption of a comprehensive strategy addressing legal and institutional issues will be key in this area.

Progress has continued regarding the *protection of minorities*. Efforts have been made to recruit persons belonging to minorities in the police. However, the implementation of the Council of Europe Framework Convention needs to be stepped up. There continues to be no accurate data on minorities. The next population census, while respecting international standards on data protection, will be key to address this issue. The legal framework on minority protection needs to be further developed and clarified to enable all minorities to fully enjoy their cultural rights. Some steps have been taken to improve the situation of the *Roma*, but the implementation of the Roma Strategy is slow. The Roma minority continues to face very difficult living conditions and discrimination.

Regarding *regional issues and international obligations*, Albania has continued to play a constructive role in maintaining regional stability and fostering good relations with other Western Balkan and neighbouring EU countries. The country participated actively in regional cooperation, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Bilateral relations with other enlargement countries and neighbouring EU Member States continued to be positive. As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the relevant EU Common Positions and guiding principles. Albania needs to align with the EU position.

The **economy** of Albania maintained macroeconomic stability against the background of the international financial and economic crisis. Throughout 2008 economic growth continued to accelerate, but it slowed down in 2009 as a consequence of reduced exports, remittances and credit growth. Monetary policy remained sound and price stability was maintained. However, an expansionary fiscal policy, while including much needed public works on the road network, resulted in a high budget deficit. Shortcomings in the rule of law, poor level of infrastructure and the informal economy remain challenges to economic development and the business environment.

As regards the **economic criteria**, Albania has made good progress towards establishing a functioning market economy. In order to enable it to cope over the medium term with competitive pressure and market forces within the Union, Albania needs to reform and strengthen its legal system and address weaknesses in infrastructure and human capital.

The government reacted to the international crisis using the full range of monetary and fiscal instruments, as well as regulatory measures. Strong capital inflows, partly driven by the accelerated privatisation process, were more than sufficient to finance the current account deficit. The continued implementation of tax administration reform broadened the tax base, increased overall tax compliance, and helped reduce the informal sector. More efficient tax collection contributed to a surplus in the primary budget balance and improved the policy-mix in 2008. The level of state ownership in the economy was further reduced, notably in the energy and telecommunication sectors. Market entry was further facilitated and market participants benefited from improved property and credit registries. In a difficult international environment, the banking sector remained well-capitalised and liquid. Large scale public works improved the road network.

However, the expansionary fiscal policy during the election period resulted in high budget deficit in 2008 and the forecasted deficit for 2009 remains high. Additional efforts in consolidating public finances are necessary. Bankruptcy procedures are still not being used. Weak administrative capacity undermines the authority and acceptance of the legal system. Informal methods of contract enforcement, by-passing the legal system, continue to be widespread. Unresolved property issues continue to undermine the development of a functional land market and keep investments below potential. The informal sector remains an important challenge. Unemployment remains high. The education system is in need of major reform. Transport infrastructure remains poor and security of electricity supply is still not fully ensured due to the lack of diversification of generation and poor interconnection capacity.

Albania has made progress in aligning its legislation, policies and capacity with **European standards**. Progress has been made in most areas, albeit unevenly. Progress continued in areas such as free movement of goods, energy and SME policy. In other areas, such as intellectual property rights, audiovisual policy, agriculture and veterinary/phytosanitary control, progress has been limited. Overall, further efforts are needed to improve administrative capacity and to enhance effective implementation of legislation.

There has been progress in some *internal market* fields. As regards *free movement of goods*, good progress continued in adopting European standards and in the areas of accreditation and metrology. However, enforcement capacity needs to be strengthened. The legislative framework on movement of capital improved with the revision of the regulation on foreign exchange activity. The regulatory framework on *consumer protection* improved with the establishment of consultative and decision-making bodies.

Progress continued on *customs'* computerisation and infrastructure but further approximation to European standards and strengthening of administrative capacity are required. Custom officials do not have civil servants status. There has been continued progress in *taxation*. The performance of the tax administration improved and computerisation of tax offices is nearing completion. However, overall tax collection is still low. The taxation on imports of used cars and printed materials is not in line with the Stabilisation and Association Agreement commitments.

Progress continued in the area of *competition* in both anti-trust and state aid areas. The legislative framework is largely in line with the *acquis*, but further efforts are needed to implement it.

Some progress can be reported as regards *public procurement*. Electronic procedures have been extended to most public contracts. However, further legislative approximation is still pending on concessions, utilities and review procedures. The capacity of the Public Procurement Agency improved, but requires further strengthening. There was some progress as regards *intellectual and industrial property rights*. The number of infringement cases brought to court increased. However, considerable further efforts are still required. Enforcement remains poor, and the capacities of the Patent and Copyright offices as well as the experience and qualifications of the judiciary remain weak.

There has been little progress on *social policies and employment*. The budget for social protection increased and the strategy for occupational health and safety was approved. However, occupational health and safety standards remain poor and the capacity of the labour inspectorate is still weak. Legislative approximation to the EU standards continued in some

public health fields. However, administrative capacity remains weak. There has been some progress on European standards in the fields of *education* and *research policy*.

Progress can be reported on some **sectoral policies**. Regarding *industry and SMEs*, good progress has been made in implementing the European Charter for Small Enterprises. There was some progress on *agriculture*, as regards the legislative and institutional framework, but structural weaknesses remain. Laboratory capacity improved in the area of *food safety, veterinary and phytosanitary* policy but compliance with EU standards remains poor and hampers Albania's capacity to export. Progress continued in the area of *fisheries* regarding horizontal legislation, inspection and international cooperation. However, catch and landing controls remain weak.

Regarding *environment*, there have been some improvements on waste management and nature protection. However, policy-making capacities and implementation and enforcement require further strengthening. On *transport*, the legislative framework improved in the air and maritime sectors. However, substantial improvements are needed overall.

There was progress in the *energy* sector. The distribution arm of the electricity company was privatised. Measures to improve electricity generation and interconnection capacities are in progress. However, the energy sector remains weak. Security of electricity supply is still uncertain. Efforts need to continue to reduce losses and to increase bill collection.

Limited progress can be reported regarding *information society and media*. Market liberalisation continued in the area of electronic communications but is still held back by lack of instruments to safeguard competition. Administrative capacity remains weak particularly within the Council of the regulatory agency. There was limited progress on *audiovisual policy*. Further efforts are required to implement the action plan on media reform. Regarding *financial control*, there has been moderate progress, but the legal framework and implementation capacity need to be further strengthened. Progress has continued in the field of *statistics*.

In the field of ***justice, freedom and security***, progress has taken place in most areas, albeit unevenly. In the framework of the visa liberalisation dialogue, steps have been taken to fulfil the benchmarks set in the visa liberalisation roadmap and key reforms have been introduced in the area of justice, freedom and security. Progress in the area of visa policy has continued. Steps were taken towards fulfilling the benchmarks set in the road-map for visa liberalisation. The Law on foreigners entered into force and implementing legislation was adopted. A reliable civil registry and address system became operational and ID cards were distributed. The pace of delivery of biometric passports has been stepped up. However, further efforts are required for alignment with European standards. Implementation of the readmission agreement between the European Community and Albania continued.

Some progress was made in the area of *border management*. Implementation of the integrated border management strategy has continued. However, further efforts are required to effectively implement inter-agency coordination and to provide adequate training, human resources and equipment at border posts. The Law on State Border Control remains to be effectively implemented. Cross-border cooperation needs to be enhanced. Good progress can be reported with regard to *asylum*. The Law on Asylum was revised. However, a range of implementing measures still needs to be adopted to complete the legal framework. Progress continued in the area of *migration*. Implementation of the National migration strategy is ongoing. Further efforts are needed to combat illegal migration.

Moderate progress has been made in preventing *money laundering*. The legal framework and the administrative capacity have improved. However, investigation resources and enforcement capacity to confiscate assets need to be strengthened. Cooperation between the police and the judiciary remains poor. Limited progress can be reported in the fight against *drugs*. Results in this area remain insufficient and in particular inter-agency cooperation needs strengthening. Drug trafficking remains a serious concern.

Some progress continued on *policing*, with the implementation of the new police law. Some improvements were made as regards staffing. However, further efforts are needed to increase investigative capacity, enhance cooperation with the prosecution and to improve human resources management. Police management, staffing, training, and internal control structures need to be further strengthened. More efforts are needed to develop reliable crime statistics.

Limited progress continued to be made in the fight against *organised crime*, which remains an issue of serious concern. Measures were taken to improve witness protection but remain insufficient. Co-operation with Interpol has improved, allowing a number of international arrest warrants to be executed. However, efforts to combat organised crime are undermined by corruption, poor witness protection and insufficient use of criminal intelligence. Difficulties in cooperation between police and prosecutors continued to reduce the effectiveness of investigations.

Some progress can be reported in the area of combating *trafficking in human beings*. The on-line database on victims became operational. The administrative capacity of the anti-trafficking coordinator and National Referral Mechanism has improved. However, additional resources and better inter-agency coordination are needed for the implementation of the anti-trafficking strategy, particularly in terms of victim protection. Albania remains a country of origin for trafficking in human beings. Internal trafficking of women and children is on the increase.

Progress has continued on the *protection of personal data*. The legal framework is in place and an independent data supervisory authority has been appointed. However, adequate resources including training, need to be ensured for the office of the Commissioner for Data Protection to work effectively. Further efforts are needed to ensure proper implementation of existing legislation and to strengthen administrative capacity.

Bosnia and Herzegovina

Bosnia and Herzegovina has made very limited progress in addressing **political criteria**. The domestic political climate has deteriorated, and challenges to the proper functioning of the institutions and inflammatory rhetoric have continued. Reform implementation has been slow, due to a lack of consensus and political will, and to the complex institutional framework. A shared vision by the political leaders on the direction of the country and on key EU-related reforms remains essential for further progress towards the European Union. Meeting the objectives and conditions which have been set for the closure of the Office of the High Representative (OHR)⁸ is essential. The European Union would not be able to consider an

⁸ These cover five objectives: 1) Acceptable and sustainable resolution of the issue of apportionment of property between State and other levels of government; 2) Acceptable and sustainable resolution of defence property; 3) Completion of the Brcko final awards; 4) Fiscal sustainability (promoted by an agreement on a permanent ITA coefficient methodology and establishment of a National Fiscal Council); and 5) Entrenchment of the rule of law (demonstrated by adoption of a National War Crimes

application for EU membership until the OHR has been closed. The reform of Bosnia and Herzegovina's constitutional framework to permit its institutions to function effectively is necessary before the Commission can recommend the granting of candidate status. To this effect, the country's political leaders have engaged in a joint EU/US-led initiative, started on 8/9 October in Sarajevo. This now needs to be converted into concrete results that will unblock Bosnia and Herzegovina's progress towards the EU through constitutional changes and a renewed domestic consensus.

Regarding *democracy and the rule of law*, there has been little progress towards creating more functional and efficient state structures and towards *constitutional* reform, which is a key priority of the European Partnership. The constitution of Bosnia and Herzegovina was amended for the first time to regulate the status of the Brčko District, which constituted a major development and step forward. However, the High Representative has recently needed to use its executive powers to ensure progress towards the end of the District's international supervision.

Bosnia and Herzegovina's system of governance continues to involve an international presence. The country has made some progress towards meeting the requirements for the closure of the OHR and the transition to a reinforced EU presence. However, the process has been hindered by insufficient political commitment. Urgent action is now needed to address the outstanding objectives, namely the apportionment of property between the state and the other levels of government, the defence property issue, and on ensuring a stable and constructive political environment in the country.

The functioning of the state-level executive and legislative bodies has been deficient. The *Parliament* of Bosnia and Herzegovina is still hampered by inadequate technical and human resources, and cooperation with the Council of Ministers and with the Parliaments of the entities has remained poor. The number of European integration-related laws adopted by the Parliament has been low. The *government* institutions, at all levels, continued to be affected by internal political tensions and fragmented and uncoordinated policy-making. The authorities have often proven unable to quickly appoint high-level officials. The work of the Directorate for European Integration has been hindered by the overall political climate and the absence of a director for most of the reporting period. Preparatory steps towards a census in 2011 have been carried out, but a state-level census law, which is crucial to the process, has not been adopted.

Some progress has been made in the area of *public administration*, but continued efforts are needed. The public administration reform strategy, which is a key European Partnership priority, is being implemented, albeit slowly. The fund established to support the public administration reform is operational and a number of projects are being implemented. Nonetheless, coordination between the various administrations within the country needs to be further improved. Sustained efforts remain necessary to prevent political interference, to limit the role played by ethnic identity and political affiliation in appointments, and to establish a professional, impartial, accountable, transparent and efficient civil service based on merit and competence. The state-level Ombudsmen have been appointed, but they are not yet fully operational due to the reluctance of the entities to phase out the existing entity-level offices.

Strategy, of a Law on aliens and asylum and of a National Justice Sector Reform Strategy), as well as two specific conditions: 1) signing of the SAA and 2) a stable political situation.

Bosnia and Herzegovina has made limited progress in improving the *judicial system*. New legislation has been adopted and some action has been taken to reduce the backlog of cases. Progress has been made in equipping courts with adequate information technology. However, implementation of the National Strategy for Development of the Justice Sector and the War Crimes Strategy has been poor and needs to be accelerated. The complexity of the legal framework, the fragmentation of the judicial system and the absence of a single budget continue to be major obstacles to reform in this area. Political interference remains frequent. The absence of a Supreme Court with countrywide jurisdiction is a serious handicap. Problems persist with the prosecution of organised crime. Bosnia and Herzegovina's political authorities have failed to address the request of the judicial authorities for the extension of the mandates of international judges and prosecutors. Prosecution of war crimes by the state court has continued to be satisfactory overall, but it needs to improve in the entities and cantons. The independence, accountability and efficiency of the judicial system need to be further enhanced. The authorities of Republika Srpska have increasingly questioned the legality, jurisdiction and competences of the state-level police and judicial agencies to operate in their territory. This is a serious cause for concern.

Bosnia and Herzegovina has achieved little progress in the *fight against corruption*, which remains prevalent in many areas and a serious problem. A new strategy and action plan for the period 2009-2014 has been adopted, but the implementation of the 2006-2009 strategic framework was poor. Little progress has been made in meeting the recommendations formulated by the Group of States against Corruption (GRECO). Prosecution remains deficient, with a very limited number of convictions. Bosnia and Herzegovina needs strengthened commitment and determined action against corruption.

There has been limited progress regarding *human rights and protection of minorities*. Bosnia and Herzegovina has ratified the major international human rights conventions, but sustained efforts are necessary to ensure better implementation. Enforcement of domestic rulings, including those of the Constitutional Court of Bosnia and Herzegovina, needs to improve. Incompatibilities between Bosnia and Herzegovina's constitutional framework and the European Convention for Human Rights need to be addressed urgently, prior to the 2010 elections and the entry into force of the Stabilisation and Association Agreement (SAA).

Civil and political rights are broadly respected. Some progress has been made in relation to unifying practice of criminal sanctions between the state and the entities. A state level law on legal aid in criminal proceedings has been adopted. However, *access to justice* in civil and criminal trials needs to be improved, and equality before the law needs to be ensured. *Ill-treatment* of detainees continues to be a matter of concern. The planned construction of a state-level *prison* is experiencing serious delays.

The state and the entity constitutions provide for the *freedom of expression* and media, the *freedom of assembly* and association and the *freedom of religion*. However, better implementation of the existing legislation is required. Alleged cases of harassment of journalists have increased. Ethnic orientation of media is increasing. The implementation of the public broadcasting reform, which is a key European Partnership priority, is being delayed by insufficient harmonisation and slow implementation of the legal framework, in particular in the Federation. The executive needs to make further efforts to enhance dialogue with the *civil society* sector and to support its development. The authorities need to ensure that allocation of funding to non-governmental organisations is conducted in an objective and transparent manner.

There has been limited progress in the area of *economic and social rights*. Bosnia and Herzegovina's legal framework includes provisions to protect economic and social rights, but implementation remains poor overall. A comprehensive state-level antidiscrimination law has been adopted but its scope is rather limited. Sustained efforts are still needed regarding the protection of *women* against all forms of violence. As regards *children*, problems in the fields of health, social protection, education and domestic violence remain. Inadequacies in social welfare systems adversely affect the conditions of *vulnerable groups*, including the mentally ill. The ratification of the revised European Social Charter was a positive development, but implementation needs to improve. The complex system of government and the fragmentation of legislation continue to hamper social dialogue across the country.

There has been some limited progress in the area of *cultural rights and minority rights*. The network of National Minorities Councils has been completed through the establishment of the Federation's Council, even though it is not yet fully operational. The strategy and action plans to support the Roma minority are slowly being implemented. Nonetheless, further steps need to be taken to improve the implementation of the Law on national minorities, and the state-level Constitution needs to be changed to allow access of minorities to all political functions. Separation of children within schools along ethnic lines remains an issue. Despite an increase of financial resources for the implementation of the *Roma* strategy, this minority continues to face very difficult living conditions and discrimination. The lack of civil registration continues to hinder their access to basic social and economic rights.

Concerning *refugees and internally displaced persons*, the security situation remained stable, but little additional progress has been achieved in improving the socioeconomic integration of those who have returned. A country-wide strategy aimed at supporting the return process and ensuring proper implementation of Annex VII of the Dayton/Paris Peace Agreement needs still to be adopted.

As regards ***regional issues and international obligations***, implementation of the Dayton/Paris Peace Agreement has continued. Cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has remained satisfactory. However, statements by Republika Srpska's political leadership challenging the veracity of war-time massacres involving civilian population are particularly worrying.

Bosnia and Herzegovina, together with its neighbours, should address the regional impunity gap, including by taking steps towards extradition agreements covering war crimes cases.

As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the EU Common Positions and guiding principles. The country needs to align with the EU position.

Bosnia and Herzegovina has continued to participate actively in regional cooperation initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA).

Bosnia and Herzegovina's relations with its neighbours have remained stable, but there has been little action to promote reconciliation and to resolve outstanding matters, which is a key priority of the European Partnership. In particular, trade and border-related issues with neighbouring countries remain open.

The **economy** of Bosnia and Herzegovina slowed down significantly in the fourth quarter of 2008 when the global crisis began to impact on the real economy. This trend continued in 2009, pushing the country into a recession. Unemployment remained at very high levels. The quality of public finances further deteriorated, characterised mainly by a dramatic increase in current expenditure. The country called for an IMF programme and a three-year stand-by arrangement was negotiated. Despite some progress in state-wide coordination of economic policy, the commitment to structural reforms remained uneven across the country.

As regards the **economic criteria**, Bosnia and Herzegovina has made little further progress towards a functioning market economy. Further considerable reform efforts must be pursued with determination to enable the country to cope over the long term with competitive pressure and market forces within the Union.

Financial and monetary stability was preserved, as the central bank reacted appropriately to repercussions from the international financial crisis. The currency board arrangement continued to enjoy a very high degree of credibility. In line with international price developments, inflation rates have come down significantly. External imbalances have decreased, mainly driven by a rapidly adjusting trade balance. While the expansion of financial intermediation has slowed down, the banking sector has so far weathered well the impact of the global crisis. Some limited improvements in the business environment can be recorded, especially in the areas of construction permits, transfer of property, business registration, and market exit.

However, the quality and sustainability of public finances have further deteriorated. Current expenditures, especially on wages and social benefits, increased dramatically in 2008, and the share of general government in GDP remained high. Restructuring of public enterprises, the liberalisation of network industries and the privatisation have not proceeded further. The weak productive capacity and structural rigidities – high social contribution rates, distorted wage-setting mechanisms, high and poorly targeted social transfers and low labour mobility – continue to hamper job creation and the functioning of the labour market. Unemployment continues to be very high and the informal sector remains an important challenge. The business environment is still affected by administrative inefficiencies. Lower FDI and public investment slowed down the upgrading of infrastructures

Bosnia and Herzegovina has made limited progress in aligning its legislation and policies with **European standards**. Some progress has been made in areas such as transport, customs, taxation, education and culture, and a number of justice, freedom and security-related matters. Particular efforts remain necessary as regards movement of goods, persons and services, social and employment policies, state aids, energy and environment.

On the whole, the implementation of the Interim Agreement (IA) has been satisfactory. Nonetheless, preparations for meeting requirements under the IA and the Stabilisation and Association Agreement (SAA) – a key priority of the European partnership, need to be accelerated. Bosnia and Herzegovina's administrative capacity has to be further strengthened in order to achieve a strong track record of SAA implementation. The country also needs to make further efforts to achieve a fully functional single economic space within its territory, as required by the European Partnership.

Bosnia and Herzegovina has made some progress in addressing European Partnership priorities in areas of the **internal market**. As regards *free movement of goods*, limited progress has been made in the fields of standardisation, accreditation, metrology and market

surveillance. Continued efforts remain necessary in order to approximate the legal framework to EU legislation in this area and to develop the necessary administrative capacity.

Limited progress has been made as regards *services, the right of establishment and company law*. Entity legislation on leasing has been harmonised, but a single state-level supervisory agency for banking remains to be established. Legislative initiatives by the entities in this area remain insufficiently coordinated.

There have been some developments in the area of *free movement of capital*. Legislation on foreign currency operations has been adopted in Republika Srpska. Some progress has been made in the field of *customs*, even though legislative alignment and administrative capacity need to improve. Customs strategies – especially for human resources management, training and information technology – still need to be defined. In the area of *taxation*, a new excise law has been adopted to improve fiscal sustainability.

As regards *competition*, Bosnia and Herzegovina made moderate progress in the field of antitrust. No tangible progress has been made in the field of state aid. The adoption of adequate state aid legislation and the establishment of an operationally independent state aid authority remain pending. Further efforts are necessary to ensure proper implementation of *public procurement* procedures across the country. Limited progress has been made regarding the enforcement of *intellectual property rights*, even though additional international conventions have been ratified. The legislative framework in this area needs to be completed and enforcement capacity further strengthened.

Little progress was made on *social and employment policies* and public health policy. Social and employment legislation and policies, as well as public health legislation, remain very fragmented. Lack of cooperation between the various levels of government continues to be a serious handicap to the development of the necessary co-ordinated approaches.

Some progress has been made on European standards in the field of *education and culture*. In particular, Bosnia and Herzegovina ratified the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. The Conference of Ministers of Education has contributed to ensure basic coordination between the fourteen competent ministries in the country. However, harmonisation of legislation at entity and canton-level has not been completed and implementation across the country has been uneven. The administrative capacity of various education agencies needs to be reinforced. As regards *research*, Bosnia and Herzegovina became associated to the Seventh EC Framework Programme for Research and Development but with respect to improve the research capacity at national level substantial efforts are still necessary.

Negotiations to join the *WTO* have continued, but the process has not yet been completed.

Bosnia and Herzegovina has made some limited progress in addressing European standards on a number of *sectoral policies*.

There has been little progress in the area of *industry*. A comprehensive industrial policy remains to be developed. As regards *small and medium enterprises (SME)* a countrywide strategic framework has been adopted. It needs now to be implemented.

Some progress has been made in the area of *agriculture and fisheries*. A strategic framework for the harmonisation of agriculture and rural development has been adopted. However,

implementation of the state-level Law on agriculture, food and rural development has been slow. There has been no progress on setting up the state-level Ministry of Agriculture, competences in agriculture remain at entity level. There has been limited progress in the fields of food safety, veterinary and phytosanitary policies. Problems remain due to inadequate human and financial resources and weak coordination between state and entity services.

Bosnia and Herzegovina's preparations in the field of *environment* remain at an early stage. No significant progress has been made during the reporting period. A state-level environmental law to create the framework for a countrywide, harmonised environmental protection remains to be adopted, and no state-level environment agency has been established.

Bosnia and Herzegovina has made some progress in the *transport sector*. There have been some developments regarding the trans-European transport networks and transit traffic, but progress has been rather limited in the road, rail and inland waterways sectors. Bosnia and Herzegovina has become a full member of the Joint Aviation Authorities (JAA). Continued efforts are necessary to consistently apply the European Common Aviation Area (ECAA) Agreement. Further action is needed to complete the reorganisation of the institutional set-up and to ensure adequate conditions for market opening in all transport modes.

No progress has been made in the field of *energy*. As a party to the Energy Community Treaty, Bosnia and Herzegovina needs to implement the relevant EU energy legislation, but it is significantly lagging behind in a number of energy-related areas. Reforms in the gas sector are particularly delayed. The development of the electricity sector continues to be hampered by various factors. The operation of the national transmission company (TRANSCO) has been seriously undermined by political interference and poor management. No comprehensive energy strategy has been developed. Very limited energy reserves are available in case of an emergency.

Progress in the areas of *information society and media* has been scarce. The harmonisation of the legal framework for public broadcasting in Bosnia and Herzegovina has not been fully achieved and the reform of the public broadcasting system has been delayed. The independence of the Communications Regulatory Authority (CRA) remains seriously weakened by the absence of a properly appointed director general and Council. Challenges to the CRA's independence remain.

Limited progress has been made in the area of *financial control*. Policy papers at the state-level and by the entities have been prepared, but they remain to be adopted. Stronger efforts are necessary to improve public internal financial control and the follow-up of audit reports.

Some technical progress has been made in the area of *statistics*. However, co-operation between the country's statistical institutions at state and entity level remains insufficient. Production of statistics and their quality need to improve, with particular attention on national accounts and statistics in key sectors, including trade, business and agriculture. A population census in 2011 remains crucial.

In the area of *justice, freedom and security*, additional progress has been made. In the framework of the visa liberalisation dialogue, steps have been taken to fulfil all the benchmarks set in the visa liberalisation roadmap and key reforms have been introduced in the area of justice, freedom and security. In the area of visa policy, progress continued. Bylaws were adopted to specify procedures for the issuance of visas provided in the Schengen acquis. The testing phase for the issuing of new biometric passports has started. A new,

dedicated agency has been established to ensure the secure and effective management of the system of personal identification documents. However, further efforts are required for alignment with European standards. Implementation of the readmission agreement with the EC has continued to take place smoothly.

Some concrete action has also been taken in the fields of *border management, asylum and migration*. A national strategy on asylum and migration has been adopted and the migration profile of Bosnia and Herzegovina has been established. A new integrated border management (IBM) strategy is under implementation and initiatives have been taken regarding cooperation with neighbouring countries. Nonetheless, more clarity is necessary as regards the division of responsibilities at the border crossing points and the posts' management.

Some additional progress has been made on preventing *money laundering*. A new law on anti-money laundering has been adopted and cooperation at international level has continued. A national strategy and action plan for the fight against and prevention of money laundering have been adopted. Domestic legislation remains to be harmonised, both internally and with international conventions. Legislation on the confiscation of assets is not in line with international standards and not harmonised within the country.

Some positive steps have been taken in the fight against *drugs*. The national strategy on illicit drugs has been adopted and the corresponding action plan has been adopted. The Commission on Narcotic Drugs has started to operate. Nonetheless, drug trafficking remains a serious problem that requires sustained efforts.

Little progress has been made with regard to the operation of the *police* and the implementation of the police reform, which is a key European Partnership. The implementation of the legislation adopted in 2008 has been slow and not all the state level agencies provided for in these laws are operational. The fragmentation of Bosnia and Herzegovina's police forces continues to undermine efficiency and results.

With the support of the EU Police Mission (EUPM), Bosnia and Herzegovina has taken some initiatives regarding the *fight against organised crime*, which nonetheless remains a matter of serious concern, affecting the rule of law and the business environment. A new strategic and legal framework to combat organised crime has been adopted, but effective prosecution of criminal organisations has to improve. Bosnia and Herzegovina is implementing the 2008-2012 national action plan against *trafficking in human beings*. However, better results are necessary in terms of prosecution and sentences. In this regard, the adoption and implementation of an adequate witness protection law is essential. As regards *data protection*, the state agency for data protection has become operational, but it is not properly staffed yet and its operation needs to improve.

Croatia

Croatia continues to meet the **political criteria**. Progress has been made in most areas and efforts intensified in the field of rule of law. However, the reform effort needs to be sustained, particularly in areas such as judicial and administrative reform, the fight against corruption, minority rights and refugee return. The Accession Partnership priorities have been largely addressed.

Democracy and the rule of law have been further strengthened. Both *government* and *parliament* have generally functioned well. However, significant improvements in the judiciary, in the public administration and in the fight against corruption are essential, not least to create a solid basis for full implementation of the *acquis*. Police reform, including depoliticising key posts and improving professionalism, needs to continue.

Some progress has been made on *public administration* reform. A new Law on General Administrative Procedures (LGAP) was adopted. A new post of Minister of Administration was established. The capacity of the newly created Ministry of Administration (formerly the Central State Office for Administration) has further improved and training measures have continued. However, important weaknesses in administrative procedures remain and implementation of the new LGAP has not yet begun. The civil service continues to suffer from many shortcomings, such as politicisation, low salaries, and weak human resources management. In addition, civil service salaries have been cut to mitigate the effects of the financial crisis and a recruitment freeze introduced. Anti-corruption measures and ethical principles remain to be embedded in public administration and the cooperation between different public stakeholders improved. A professional, merit-based, accountable and transparent civil service still needs to be established.

Implementation of the *judicial reform* strategy has continued and a large volume of new legislation was adopted. The directorate for strategic development in the Ministry of Justice was reinforced. A new selection procedure for judicial trainees was introduced. The backlog of cases was further reduced. Steps were taken to rationalise the court network. Professional training programmes were further expanded. Ethnic bias in war crime cases is being reduced. The issue of *in absentia* verdicts from the 1990s has been partially addressed.

However, the selection procedure for judges and prosecutors remains deficient. The overall case backlog remains high and the length of judicial procedures excessive. Problems with the enforcement of court rulings remain. Court rationalisation is at a very early stage. Monitoring of reform measures is still not adequate. Further improvements in case management and in the accountability, independence, professionalism and competence of the judiciary are also required. Impunity for war crimes remains a problem, especially where victims were ethnic Serbs. Many crimes remain unprosecuted. There is as yet no track record of implementation of new review provisions for *in absentia* cases. Overall, reforms in the judiciary continue but concrete results are only slowly appearing.

There has been some progress in the *fight against corruption*. The legal framework to combat corruption has been further improved, including as regards confiscation of assets. A national police office for the fight against corruption and organised crime became operational. Special anti-corruption departments in four key courts were established. The office for the fight against corruption and organised crime continues to be active and has issued indictments and secured verdicts – notably in the Croatian Privatisation Fund (Maestro) case - in some important cases. It has also begun to investigate possible high level corruption involving a former government minister. However, corruption is still prevalent in many areas. The recently upgraded legal and administrative structures remain to be tested in practice. While the total number of corruption cases investigated so far has increased, the actual number of prosecutions and convictions remains low. There has been limited investigation of high level corruption. A culture of political accountability is lacking. The administrative capacity of state bodies for fighting corruption continues to need further improvement. There has been little progress in preventing conflicts of interest.

Some progress has been made in the area of *human rights and the protection of minorities*. Human rights protection is broadly ensured but certain important challenges remain in terms of implementation. Sustained efforts are needed on minority rights and refugee return.

The Law on Legal Aid began to be implemented. However, *access to justice* is frustrated by many implementation problems, including the complexity of the application procedure itself. Further steps were taken to address shortcomings in *prison conditions*. However, a shortage of prison staff and capacity persists. As regards *ill-treatment*, the Ombudsman continued to receive a number of complaints regarding the excessive use of force by the police.

Freedom of expression, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. However, threats against journalists working on cases of corruption and organised crime have been increasing. Editors and journalists continue to report undue political pressure.

As regards *women's and children's rights*, handling of domestic violence cases has improved. The ombudsmen have continued to play an important role. However, the situation of women on the labour market remained difficult; data by gender is still missing, thereby hampering monitoring of gender equality legislation. Implementation of measures regarding the protection of children's rights needs to be accelerated.

The new Office of the Ombudsman for Persons with Disabilities has been successful in carving out a visible role for itself. Public bodies and private enterprises have been responsive to its recommendations. However, continued efforts are needed as regards the *socially vulnerable and persons with disabilities*. More progress is needed in the field of de-institutionalisation, including in cases of mental health and for children with disabilities.

The new *anti-discrimination law* is in an early phase of implementation. The ombudsman has started to exercise his new responsibilities. However, proper implementation of the new law is jeopardised by recent budget cuts. Discrimination against minorities remains a particular problem (see below). In practice the level of protection against discrimination and its judicial prosecution is not yet in line with EU standards.

Some progress has been made with regard to *minorities*. High level public expressions of commitment to the rights of minorities have continued. The Roma minority has continued to receive attention, with improvements particularly in preschool education. However, many problems remain for minorities. Minorities continue to face particular difficulties in the area of employment, both in terms of under-representation in state administration, the judiciary and the police as well as in the wider public sector. Legal provisions and programmes need to be implemented with more determination, and adequate monitoring assured. Croatia needs to encourage a spirit of tolerance towards the Serb minority and take appropriate measures to protect those who may still be subject to threats or acts of discrimination, hostility or violence. The Roma minority still face difficult living conditions and challenges remain in many areas.

There has been some progress on *refugee return* issues. Progress has been made towards meeting the government's targets for the provision of housing care for former occupancy and tenancy rights holders, with many apartments being made available. Although not yet fully met, good progress was made towards meeting the 2008 target of providing 1,400 accommodation units. However, work on meeting the 2009 target is still at an early stage. Several thousand housing units still need to be made available to returning refugees. Moreover, some 8,000 appeals for housing reconstruction still remain pending.

Implementation of the decision on validating pension rights has been uneven. Efforts to create the economic and social conditions necessary for the sustainability of refugee return need to be accelerated. Croatia should ensure that budget cuts necessary in the context of the economic crisis do not weigh negatively on refugee return issues.

As regards *regional issues and international obligations*, co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has continued. However, problems of access for ICTY to important documents in Croatia have still not been resolved. Croatia needs to ensure all necessary steps are taken to settle this issue.

Croatia has continued to participate actively in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Progress has been made towards settling the bilateral border issue between Croatia and Montenegro. Both countries have been co-operating on preparing their submission to the International Court of Justice on delimiting the border at Prevlaka. However, further progress is required towards finding definitive solutions to the various bilateral issues which remain open, particularly as regards borders. Efforts are needed to further develop co-operation and good neighbourly relations. Croatia, together with its neighbours, should address the regional impunity gap, including by taking steps towards extradition agreements covering war crimes cases. Relations with Slovenia have been affected by the outstanding border issue. The border issue between the two countries held back the accession negotiations, such that a substantial number of chapters could not be opened or closed until October 2009, although technically finalised earlier. The Commission has provided its facilitation services to settle this dispute. Intensive efforts by the Commission, supported by the Trio of Presidencies, have been made over six months, which paved the way for a political agreement between the two parties reached in September 2009. The Commission welcomes the recent progress that led to a substantial number of chapters being opened or provisionally closed at the accession conference in October.

The **economy** of Croatia has been increasingly hit by the global crisis. The country entered into recession in the first half of 2009 and unemployment increased. Macro-economic stability has been preserved by a prudent monetary policy. Some efforts to rebalance the budget were made, but the fiscal deficit increased significantly. The banking sector remained sound and resilient to the crisis. A high level of external indebtedness and large short-term repayment obligations are key vulnerabilities of the economy. The process of economic restructuring and privatisation has remained slow and limited improvements in the business environment have been made.

As regards the **economic criteria**, Croatia is a functioning market economy. It should be able to cope with competitive pressures and market forces within the Union, provided that it further implements its comprehensive reform programme with determination in order to reduce structural weaknesses.

The macroeconomic policy response has by and large been appropriate to address spill-overs from the crisis. In particular, monetary policy contributed successfully to preserving financial stability mainly by alleviating foreign exchange liquidity constraints through regulatory changes. In reaction to mounting fiscal pressures, some adjustments in spending as well as measures to compensate for falling revenues were adopted in the context of successive budget revisions. The legal basis for strategic and multiannual budget planning and reporting was improved. A health reform was adopted to improve the financial situation of the health sector. External imbalances have narrowed, exchange rate stability has been preserved, and

inflationary pressures have subsided. The banking sector remained resilient to shocks and credit growth has declined. Croatia's economy is well integrated with the EU.

However, the government's economic policy has sometimes lacked a clear medium-term orientation. Policy coordination within the government and between the government and the central bank is sometimes weak. Structural reforms have generally advanced at a slow pace, in particular with respect to the restructuring of loss-making enterprises. The labour market suffers from low employment and participation rates, which have worsened with the crisis. Only limited progress has been achieved with reforms aimed at addressing labour market rigidities. In the context of the crisis, significant risks of higher spending and further declines in revenues have materialised. The fiscal deficit increased significantly. The late policy response revealed weaknesses in the budget planning process. Moreover, little progress has been achieved in increasing the efficiency of public spending. Social transfers remained high and not well-targeted and a large number of public and state-owned enterprises continued to receive state support through subsidies and guarantees. Therefore, the design of a credible fiscal strategy aimed at reducing budget rigidities and enhancing the efficiency of public spending remains a key challenge. Further progress has been made in facilitating business registration procedures, but the investment climate continued to suffer from a heavy regulatory burden and numerous para-fiscal taxes.

Croatia has improved its **ability to take on the obligations of membership**. Preparations for meeting EU requirements have continued to progress well and there is a good degree of alignment with EU rules in most sectors. In most areas there has been good progress, principally in terms of legislative alignment but also as regards administrative capacity building. However, further efforts lie ahead, in particular as regards further reinforcement of the administrative structures and capacity necessary for proper implementation of the *acquis*. Also, vigilance is required to ensure the budget cuts necessary in the context of the economic downturn do not disproportionately affect preparations for EU accession.

Good progress has been made in the field of *free movement of goods*. Alignment is well advanced, but some elements are not yet fully in place, notably with regard to conformity assessment, metrology and market surveillance. Continued efforts are needed to complete alignment with the *acquis* and to build the necessary implementation capacity. Good progress has been made on the *free movement of workers*. A satisfactory level of legal alignment has been reached. However, sustained efforts are needed to develop the necessary administrative capacity, in particular for the coordination of social security systems.

Some progress has been made with regard to the *right of establishment and freedom to provide services*. Overall, there is a reasonable level of alignment with the *acquis*. However, further efforts on alignment are needed. Administrative capacity also needs to be reinforced.

There has been some progress on the free movement of capital, mainly as regards liberalisation of the real estate market and legislative changes in the anti-money laundering (AML) area. Overall a reasonable level of alignment has been achieved. Further efforts will be needed especially with implementation and enforcement of AML legislation, and with completing liberalisation of capital movements and alignment with the payment services *acquis*.

There has been good progress in *public procurement*, in particular as regards completion of the necessary institutional set-up. Overall, preparations are at an advanced stage. However, legislative alignment has still to be completed and administrative capacity further enhanced at

all levels of the procurement system, in particular with a view to effectively fighting corruption and tackling irregularities and potential political interference.

Some progress was made in the field of *company law*. Alignment with the *acquis* is well on track. More remains to be done in the area of auditing as regards the implementation of new legal provisions and the strengthening of administrative capacity. Progress can be reported in the field of *intellectual property law*, both as regards legislative alignment and enforcement. Alignment with the *acquis* is at a very high level. The overall awareness of intellectual property rights in society needs to be increased and attention should be given to the increasing involvement of organised crime groups in intellectual property rights-related offences.

Significant progress has been achieved on *competition policy* in particular as regards the adoption of the Competition Act and the publication of tenders for the shipyards in difficulty with a view to their restructuring through privatisation. Overall, a reasonable level of alignment has been achieved. However, sustained efforts are required in order to complete the restructuring of the shipyards. Work also remains to improve the Competition Agency's enforcement record against cartels, to align the Croatian Broadcasting Act, and in the steel sector.

Significant progress can be reported on *financial services*. Legislative alignment is very advanced, but further efforts are needed regarding implementation. Efforts are needed to further strengthen the supervisory authorities' capacity to perform their supervision function and improve consultative interaction with the financial sector.

Good progress has been made in the field of *information society and media*. A good level of alignment has been reached. Efforts need to continue to strengthen the capacity of the national regulators to implement correctly the legal framework, as well as to sustain liberalisation of the electronic communications market.

There has been progress on *agriculture and rural development*, in particular regarding the collection and processing of agricultural data. Overall preparations are moderately advanced. However, substantial efforts are still required to establish the paying agency and Integrated Administration and Control System/Land Parcel Identification System. Further alignment of the support schemes with the Common Agricultural Policy (CAP) is essential to prepare for a smooth transition to the CAP. In rural development, the absorption capacity for EU pre-accession funds needs to be improved.

Good progress has been made on *food safety, veterinary and phytosanitary policy*, in particular with implementation of new legislation. Overall, preparations are advanced. Continued efforts are required to finalise the transposition and implementation of the *acquis* in particular regarding the implementation of the national programme for the upgrading of establishments for animal origin and the securing of the necessary administrative and control capacity.

Croatia has made good progress in the field of *fisheries*. Overall, preparations are well advanced. Croatia will need to step up its efforts to close the remaining gaps in the areas of fleet management, inspection and control, structural action and state aid.

There has been some progress in the *transport* field. Overall, there is a reasonable level of alignment. Further improvement of administrative capacity is needed in the maritime transport sector, in the Civil Aviation Agency in particular in view of aviation safety, and in

the railway regulatory authority. Further legislative alignment is needed in particular in the aviation and maritime cabotage sectors. There has been good progress on the *energy* chapter. Alignment with the *acquis* is well advanced. Efforts are still needed to enhance administrative capacity, to improve the functioning of the electricity and gas markets and to meet the renewable energy targets.

Good progress was made on *taxation*, notably on legislative alignment. The discriminatory excise duties on cigarettes have been repealed and legislation further aligned to the EU *acquis* in the field of direct taxation, excise duties and VAT. Nevertheless, efforts are still required to further align Croatian legislation, most notably in the field of VAT. Efforts should continue to strengthen administrative capacity, including IT interconnectivity.

There has been significant progress in the area of *economic and monetary policy*. Overall alignment with the *acquis* in this area is very advanced. Work on anchoring the independence of the central bank in Croatia's legislation needs to be completed. Further efforts are required concerning policy co-ordination.

On *statistics*, substantial progress has been made. A good level of legal alignment has been reached. However, efforts should continue to further align Croatian statistics with EU requirements.

Good progress has been made on *social policy and employment*. A good level of legal alignment has been reached, although some gaps remain, especially as regards labour law. Further efforts are required in order to strengthen the administrative capacity in good time before accession to ensure proper implementation and enforcement.

Some progress was achieved on *enterprise and industrial policy*. Overall, alignment with the *acquis* in this chapter is very advanced. However, further efforts are needed to put into practice the regulatory impact assessment of new legislation and to improve the SME environment.

Good progress was made regarding the development of the transport and energy networks in line with the design and objectives of the *TENs* – Transport network and Energy network. Overall, alignment with the *acquis* is well advanced.

Some progress has been made on *regional policy*, notably in preparing implementation of those IPA components which serve as pre-cursors to the Structural Funds. Overall, Croatia is partially aligned with the *acquis*. Further efforts are needed to meet the regulatory and operational requirements of the Community's cohesion policy. In addition to enhancing the administrative capacity and preparing the project pipeline, Croatia needs to further build its financial management and control ability.

Croatia has made some progress on *judiciary and fundamental rights*. Reforms in the judiciary have continued but significant challenges remain, particularly relating to judicial independence and efficiency. Anti-corruption efforts have produced initial results, but corruption remains prevalent in many areas and tools are not being deployed with sufficient vigour, especially on political corruption. Legal provisions on fundamental rights are in general adequate, but despite some progress, a number of important challenges remain in terms of implementation, especially for minorities. Particular vigilance is required as regards freedom of expression and threats against journalists.

Croatia has made some progress in the chapter *justice, freedom and security*, particularly as regards the fight against drugs, dealing with trafficking of human beings, and management of external borders. However, Croatia needs to step up its efforts in order to ensure that EU requirements are met upon accession, notably in developing administrative capacity, fighting organised crime and developing the infrastructure, equipment and resources to manage effectively the external border.

Good progress has been made on *science and research* and preparations are well advanced. Further efforts remain necessary, however, to ensure association and full participation of Croatia in the European Research Area.

Good progress has been made in the area of *education and culture*. A good level of legal alignment has been achieved. Croatia should continue its efforts to prepare for the management of Life Long Learning and Youth in Action programmes. Due attention also needs to be paid to adult education.

Good progress has been made on the *environment*, especially in the areas of air quality, industrial pollution control and risk management, and climate change. Overall, Croatia's preparations are advancing well. However, considerable efforts are still needed in reaching alignment with the *acquis* in the water sector and nature protection. Implementation of the horizontal *acquis*, not least strategic environmental assessment and access to justice in environmental matters, needs to be improved. Administrative capacity needs further strengthening both at national and local level.

There has been good progress in the area of *consumer and health protection*. A good level of legal alignment has been reached. However, sustained efforts are necessary to further strengthen administrative capacity.

Croatia has made good progress in the field of *customs union*, where its legislation is well aligned with the *acquis*. Croatia has improved its administrative capacity and IT interconnectivity, and has started to implement a coherent anti-corruption policy within Customs. Efforts need to continue in the remaining areas of legislative alignment, in implementing the Anti-Corruption Strategy and in IT interconnectivity.

Croatia has made some progress in the area of *external relations*. Preparations for the EU's common commercial policy are well on track. However, Croatia should respect its international obligations when resorting to trade defence measures. Efforts are still needed with regard to development policy and humanitarian aid.

Croatia has made good progress and reached overall a good level of alignment in the area of *Foreign, Security and Defence Policy*. Croatia continues to participate in several EU ESDP missions. Croatia now needs to strengthen implementation and enforcement of arms control including transparency of arms-related information, and to further improve capacity for full implementation of CFSP-ESDP.

Progress has been made on financial control. Continued efforts are needed to ensure sustainable development of the overall PIFC system on both central and local government level. The functional and financial independence of the State Audit Office needs to be anchored in the Constitution.

There has been good progress in the area of *financial and budgetary provisions*, with improvements in institutional capacity. Overall, Croatia has reached a good level of alignment, except for sugar levies. Preparations to apply the own resources rules need to continue.

The former Yugoslav Republic of Macedonia

The presidential and local elections of 2009 met most international standards and most of the recommendations of the OSCE/ODIHR from previous elections have been implemented. Political dialogue has improved: the governing coalition is stable, the political climate is more cooperative and the parliament is more effective. The key Accession Partnership priorities regarding the reform of the police, the judiciary, public administration and corruption have been substantially addressed. On this basis, and in view of the overall progress of reforms, the Commission considers that the country sufficiently fulfils the **political criteria**.

The implementation of the Ohrid Framework Agreement remains an essential element of **democracy and the rule of law** in the country. There has been progress on implementing the law on languages, on decentralisation and equitable representation. On this basis, further efforts in a constructive spirit are needed to fulfil the objectives of the Agreement.

The conduct of the presidential and local elections in 2009 met most international standards. The election days were peaceful, the political climate was calm and the conduct of voting showed a marked improvement over the 2008 parliamentary elections. The shortcomings identified by the OSCE/ODIHR need to be addressed. Political dialogue, which is a key priority of the Accession Partnership, has improved. The coalition *government* has been stable. The National Council for European Integration is chaired by the main opposition party. The functioning of *parliament* has been strengthened, notably through the introduction of rules of procedure, and a law on parliament has been adopted. Continued efforts are needed, in particular to enhance the role of the parliament.

Some progress was made in *public administration reform*, including reform of the civil service, which is a key priority of the Accession Partnership. The amendments to the law on the civil service adopted in September strengthened the provisions aiming to ensure merit based recruitment and promotion of civil servants. Further efforts to ensure transparency, professionalism and independence of public administration are required. Respect for the provisions and the spirit of the law needs to be ensured in practice. Reform of the police, which is a key priority of the Accession Partnership, has made further progress. The new system of commanders at local and regional level is fully functional, management has improved and the law on internal affairs has introduced a career system into the police service. Police officers have been barred from holding office in political parties.

Further progress has been made on *judicial reform*, which is a key priority of the Accession Partnership. The first graduates from the Academy of Judges and Prosecutors have been appointed, the new courts and judicial bodies are being staffed and are taking up their activities, and the budget has been increased very significantly. Continued efforts are needed to ensure the independence and impartiality of the judiciary, in particular through the implementation of the provisions regarding appointments and promotions.

Good progress has been made in strengthening and implementing the *anti-corruption* framework, which is a key priority of the Accession Partnership. The electoral code and the law on financing of political parties were amended to strengthen transparency, there were

further indictments and convictions in high-level cases and cooperation among law enforcement agencies improved. Nevertheless, corruption remains prevalent and continues to be a serious problem in many areas. Continued efforts are needed, in particular as regards implementation of the legal framework.

The legal and institutional framework for *human rights and the protection of minorities* is broadly in place. Nevertheless, further efforts are needed to improve implementation in a number of fields.

Allegations of *ill-treatment* by the police fell significantly following the disbanding of special police units, the conduct of thorough investigations and the taking of disciplinary measures. However, an independent external mechanism to monitor cases of police misconduct, in line with ECHR jurisprudence, has not yet been established. An action plan for the overhaul of *prison* infrastructure has been adopted but important short term measures to tackle inhuman and degrading conditions have still not been taken. Professional management of the prisons remains to be established.

With regard to *freedom of expression*, overall the situation is satisfactory. However, there are ongoing concerns regarding political interference in the media.

As regards *women's rights*, the strategy against domestic violence has begun to be implemented. However, further efforts are needed to develop administrative capacity on gender equality. Concerning *children's rights*, school attendance has increased; almost all primary school pupils go on to attend secondary school. The law on juvenile justice entered into force in June.

Regarding *cultural and minority rights*, there has been some further progress in implementing the strategy for equitable representation, in line with the Ohrid Framework Agreement, with the number of civil servants from the non-majority ethnic communities increasing to 26% at central level by September 2009. The Law on Languages, which provides for greater use of Albanian, has begun to be implemented in parliament. A specialised agency for protecting the rights of the smaller communities was set up but is not yet operational.

The high schools in Struga municipality partly restored ethnically mixed education at the start of the 2009-10 school year. However, the authorities need to make further efforts to promote integration of the ethnic communities of the country, particularly in education. The concerns of the smaller ethnic minorities continue to be insufficiently addressed.

Little progress can be reported regarding the *Roma*. The four action plans in the framework of the 2005-15 Decade of Roma Inclusion continued to be implemented slowly, although state funds were allocated to implement the action plans. The administrative capacity of the office of the Roma minister without portfolio and of the unit for implementation of the Roma strategy requires significant strengthening. Roma continue to face very difficult living conditions and discrimination.

Regarding *regional issues and international obligations*, the former Yugoslav Republic of Macedonia maintained full co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY). The domestic legal system is processing the four cases referred by the ICTY back to the national authorities.

As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the EU Common Positions and guiding principles. The country needs to align with the EU position.

The country has continued to participate actively in regional cooperation initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA).

The former Yugoslav Republic of Macedonia has generally good relations with countries in the region. However, relations with Greece continued to be affected by the unresolved name issue. The country is engaged in talks under the auspices of the UN on resolving it. Actions and statements which could negatively impact on good neighbourly relations should be avoided. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

The **economy** of the former Yugoslav Republic of Macedonia slowed down and slightly contracted in 2009, as the international environment deteriorated. Inflation declined markedly, mainly due to lower international energy and commodity prices. Some progress has been achieved in addressing structural unemployment and in reducing impediments to employment. However, the still very high unemployment, in particular among young and poorly educated, remains a major cause of concern. Weaknesses in the administration and the rule of law continue to have a negative bearing on the business climate.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia is well advanced. It has continued to move closer towards becoming a functioning market economy. It should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it vigorously implements its reform programme in order to reduce significant structural weaknesses.

The country has maintained a broad consensus on the essentials of economic policies. Privatisation is largely completed. Price and trade liberalisation has been largely accomplished. Market entry and registration has been further improved and the regulatory framework has been further simplified. Bankruptcy procedures have been further shortened and property registration is well advanced. The authorities have increased their efforts in addressing structural unemployment and measures have been taken to reduce the tax burden on labour. Financial independence of supervisory and regulatory agencies has been strengthened. Financial intermediation has declined slightly but the sector as a whole has so far weathered well the international financial crisis. Further measures have been taken to improve the quality of human capital.

However, in the context of the election period and the global economic crisis, the overall policy mix has deteriorated. The quality of public finances has declined, with a strong increase in public spending, notably in income transfers and subsidies and pensions, which rose well above inflation. This contributed to a sharp increase in external imbalances, while the public sector financing needs crowded out funds for private investment. Public sector debt has increased, but is still relatively low. FDI inflows decelerated markedly, largely due to the deteriorated international environment. Funds for addressing structural unemployment have remained limited, while unemployment remained very high. Institutional weaknesses and the rule of law need to be improved to allow for smooth functioning of the market economy. Further efforts are needed to strengthen public administration and the judiciary, in order to improve legal certainty and improve business environment. Regulatory and supervisory

agencies sometimes still lack the sufficient independence and resources to fulfil their functions effectively. Despite efforts to reduce the unregistered economy, the issue remains an important challenge.

The former Yugoslav Republic of Macedonia has made good progress in improving its **ability to assume the obligations of membership**, in particular as concerns transport, customs and taxation and justice, freedom and security. Less progress has been achieved in certain other areas such as energy, the environment and employment and social policy. Overall, there was further progress in the fulfillment of the priorities of the Accession Partnership. However, sustained efforts are needed to strengthen administrative capacity for the implementation and enforcement of legislation. In line with the relevant key priority of the Accession Partnership, commitments undertaken in the Stabilisation and Association Agreement have been implemented.

Some progress has been achieved in the area of *free movement of goods*. A significant part of the horizontal and sectoral *acquis* has yet to be transposed. There has been some progress in the area of *freedom of movement for workers*, where alignment with the *acquis* remains at an early stage. Progress on *right of establishment and freedom to provide services* was uneven. There is a lack of coordination between the various bodies responsible for authorising cross-border services. Progress in the area of *free movement of capital* was mainly confined to the fight against money laundering. The obligations stemming from the first stage of the SAA were met in 2008.

Good progress has been made in the area of *public procurement*, where significant steps have been taken towards aligning the legislation with the *acquis*. Further work is required to enhance the administrative capacity at all levels. Good progress has been made also in the area of *company law*, although alignment of the legal framework for accounting and auditing is lagging behind. Some progress has been made towards strengthening the legal framework and enhancing administrative capacity and institutional cooperation in the area of *intellectual property law*. Enforcement, though improving, is not yet satisfactory.

Some progress was made in the area of *competition*. A credible enforcement record has been built up, in particular in the field of concentrations, although the fight against cartels should be strengthened. The number of *ex ante* State aid decisions increased. The human and financial resources of the competition authority are still inadequate.

There has been some progress in the area of *financial services*, mainly related to legislative developments on the banking sector, securities markets, investment services and pensions. However, the insurance market is not yet properly regulated and supervised.

Progress was made in the field of electronic communications and information society services. Competition on the electronic communications markets increased as a result of the liberalisation process, to the benefit of consumers. In the area of audiovisual policy, the Broadcasting Council and the public service broadcaster continue to be subject to political interference. Overall, preparations in the area of *information society and media* are advanced.

Progress has been achieved in the field of *agriculture and rural development*. The administrative capacity of the paying agency and the operational structures responsible for EU pre-accession funds have been strengthened, although in other areas administrative capacity remains weak. Alignment with the *acquis* requires further sustained efforts in particular regarding thorough implementation of adopted legislation. There has been some progress in

the area of *food safety, veterinary and phytosanitary policy*, mainly regarding legislative preparedness. However, the administrative capacity, in terms of both the number and skills of staff, is still insufficient to ensure proper implementation of the *acquis*.

Good progress has been made in the area of *transport policy*, in particular as regards transport, including road charging. In general, legislative alignment is advancing in all sectors. However, the administrative capacity in every sector of transport is insufficient, both in numbers and in terms of qualifications. Independent regulatory bodies and safety authorities have yet to be established for air and rail transport.

Some progress has been made in the *energy* sector. However, amendments to the Energy Law, as well as a correct implementation of the legislation, are necessary in order to meet the obligations under the Energy Community Treaty. An effectively functioning electricity market has yet to be established. The degree of independence of the energy regulator and the radiation protection regulator needs to be further improved.

Good progress was made on *taxation*. The level of legislative alignment in indirect taxation is well advanced. Further efforts are required as regards direct taxation. The operational capacity of the Public Revenue Office has been strengthened and tax collection has improved.

Some progress has been made in legislative alignment and administrative capacity in the area of the *economic and monetary policy*. Overall, preparations in this area are on track. Good progress has been made on improving sector *statistics* and aligning classifications with the *acquis*. The statistical infrastructure has been strengthened, but the resource situation remains weak.

Limited progress has been made in the area of *social policy and employment*. An effective and representative social dialogue is still lacking. The administrative capacity has slowly been strengthened, but remains insufficient to implement properly the legislation and policies adopted. Good, but uneven, progress has been made in the field of *enterprise and industrial policy*. The financial resources and administrative capacity of public bodies for implementation of enterprise and industrial policy instruments are modest. Alignment with the *acquis* in this chapter is moderately advanced.

Progress was made in the area of *trans-European networks*. Preparations in this area are advanced. Some progress can be reported in the area of *regional policy and coordination of structural instruments*, notably in the form of enhanced efforts and preparations for the implementation of the components of IPA serving as pre-cursors to the Structural Funds. Overall, alignment with the *acquis* in this area is advancing.

As regards *judiciary and fundamental rights*, there has been good progress on combating corruption and some progress on the reform of the judiciary and on safeguarding fundamental rights. The newly established institutions and increased budgetary resources have improved the overall efficiency of the judiciary, but continued efforts are needed to secure independence. As regards anti-corruption, further progress can be reported on prosecuting high-level cases, on strengthening the institutional framework and on cooperation between law enforcement agencies. The electoral code and the law on financing of political parties were amended to strengthen transparency. Nonetheless, corruption remains prevalent continues to be a serious problem in many areas. Efforts need to be pursued. Most of the legislative and policy measures relating to fundamental rights are in place, but implementation is uneven, and further efforts are required.

In the area of *justice, freedom and security*, the country has continued to address key challenges. Regarding visa liberalisation, the country has made important progress in the areas covered by the roadmap and fulfilled the benchmark criteria. On the basis of the progress achieved, the Commission proposed in July 2009 the lifting of the visa obligation for the citizens of the former Yugoslav Republic of Macedonia⁹. Good progress can be reported on asylum, the fight against organised crime and drugs, as well as on external borders and Schengen. Administrative capacity to implement the police reform has improved, but is still constrained by the not fully developed human resources management. Regarding the fight against organised crime, the use of special investigative techniques, witness protection and intelligence-led policing has improved. Further efforts are necessary, in particular to establish an integrated intelligence system. The country has achieved a greater degree of alignment with the *acquis* for both its legislative and administrative capacity. Overall, preparations in this area are on track.

Some progress has been made in the area of *science and research*. Administrative capacity to support participation in the Framework Programmes is not sufficiently developed. Overall, preparations in this area are on track. Some progress has been made in the areas of education, training, youth and culture, in particular as regards participation in Community programmes. However, the budget for education remains insufficient to implement the national reform strategy. Overall, preparations in the area of *education and culture* are advanced.

Progress has been made towards further transposing the EU *acquis* in the field of the *environment*, in particular in the cases of horizontal legislation and waste management. Implementation of the legislation remains a considerable challenge. Administrative capacity is weak at both national and local levels. Significant further efforts are still needed to further align with the EU *acquis* in this sector and, moreover, to ensure the required investments. Overall, preparations in the field of environment are moderately advanced.

Some progress has been made in the area of *consumer and health protection*. As regards consumer policy, there is still no effective and transparent market surveillance system. In the field of public health, the human and financial resources available are not yet sufficient to ensure proper implementation of legislation, strategies and action plans.

Progress in the area of *customs union* has been substantial, in particular as regards administrative and operational capacity. The customs legislation is sufficiently aligned with the *acquis*, except in the case of transit. The administrative capacity of the customs administration to implement legislation and to tackle cross-border crime is continuing to improve. Preparations in this area are on track.

There has been some progress in the alignment with the EU's *external relations* policy. Overall, preparations in this area are on track. There has been some progress in the area of *foreign security and defence policy*, in particular in terms of strengthening the administrative capacity. The country aligned with most EU declarations and common positions and has shown continued commitment to participation in ESDP operations.

Some progress has been made towards aligning and implementing the legislation in the area of *financial control*. The administrative capacity of the responsible institutions has been further strengthened. There was some progress as concerns *financial and budgetary*

⁹ COM(2009) 366.

provisions. Improvements were made to the operational capacity of the customs authority and the Public Revenue Office, particularly in combating customs and VAT fraud.

Montenegro

Montenegro has continued to make progress in addressing the **political criteria**. In line with the European Partnership, it further pursued the completion of its legal framework and strengthened administrative and institutional capacity. The constitution was on the whole implemented effectively. Judicial reform continued and started to produce results. Yet political influence on the judiciary and the prosecution persists. The fight against corruption and organised crime needs to be pursued with determination. Strengthening of administrative capacity remains a major challenge. Political consensus on EU-related issues remains strong. Parliament's capacity to scrutinise legislation and monitor the implementation of reforms needs to be enhanced.

Democracy and the rule of law continued to be strengthened. Overall, the implementation of the constitution proceeded well. However, some key laws remain to be aligned with it. The functioning of state institutions has improved in particular in the areas related to European integration. The need for greater political will in the fight against corruption, in particular high-level corruption, remains.

There has been some progress in the functioning of the *parliament*. Legislative activity continued to be intense and its administrative capacity was strengthened. However, parliament needs to substantially enhance its efficiency as a legislative body and its capacities of oversight. Parliamentary elections held in March 2009 met almost all OSCE and Council of Europe commitments. However, OSCE-ODIHR identified a number of challenges and shortcomings which remain to be addressed. Electoral legislation needs to be aligned with the constitution.

The *government* continued to set up new administrative structures following the country's independence. The framework for coordination of European integration improved and continued to function smoothly. Some progress has been made in reforms of the *public administration* through the adoption of key legislation, upgrading of administrative capacity and improved human resources management. However, lack of human and financial resources, along with structural weaknesses and corruption continue to hamper the overall effectiveness of the public administration. Administrative capacity remains limited. Significant efforts are required to establish a professional, accountable and merit-based civil service, free of political interference. Most of the opinions and recommendations issued by the Ombudsman's office have been followed up. However, the Law on the Ombudsman remains to be fully aligned with the constitution and the office's capacities require further strengthening.

Greater efforts are needed to establish and empower independent, supervisory and regulatory bodies that operate effectively.

Montenegro has made moderate progress in *judicial reform*. The legal framework was further strengthened by the adoption of a new Criminal Procedure Code. However, further efforts are required to ensure the independence of the judiciary and the autonomy of the prosecution. The capacity of the prosecution to undertake its new tasks under the Criminal Procedure Code must be enhanced. Further consolidation of the accountability, integrity and efficiency within the judicial system is required.

There has been good progress in building the legal and administrative framework for *the fight against corruption*. Progress has been made on further enhancing preventive and investigative anti-corruption bodies. However, corruption remains prevalent in many areas and continues to be a particularly serious problem. There are concerns over the comprehensiveness and effective implementation of legislation in this area. While there is a positive trend, investigation capacities and co-ordination of law-enforcement agencies are weak, resulting in low numbers of convictions. There is insufficient supervision in the areas of financing of political parties and conflict of interests.

There has been further progress in the area of ***human rights and protection of minorities***, where Montenegro is broadly in line with European standards.

Overall, there has been some progress in the area of *civil and political rights*. However, further efforts are required to improve implementation of laws in the areas of *torture and ill-treatment*, the *prison system* and *access to justice*.

Freedom of expression remains a concern. Investigations of violence against journalists marked progress. However, new incidents have been reported. Intimidating statements by state officials on the role of media and NGOs are a cause of concern. The government needs to engage constructively with civil society representatives. The respect of *freedom of assembly and religion* remains overall satisfactory. However, restitution of church property remains to be addressed and state bodies should remain impartial in relation to disputes between the Serbian and Montenegrin Orthodox churches in Montenegro.

Sustained efforts are needed in the area of *women's rights*, particularly related to the insufficient protection of women against all forms of violence, as domestic violence remains widespread. Key legislation such as a law on the protection from violence in the family remains to be adopted. Major legislation such as an anti-discrimination law has not yet been adopted. Determined efforts to proceed with the implementation of legislation and strategies on improving *children's rights* and socially vulnerable groups are required. Regarding *property rights*, there have been fewer complaints concerning property rights in 2008. However, concerns persist over the implementation of restitution legislation.

Montenegro made some progress with implementing the framework for *minority protection*. Minority Councils became operational and were allocated funding. Some steps have been taken to improve the situation of the *Roma*, Ashkali and Egyptian (RAE) communities. Inter-ethnic relations continue to be smooth. However, the social and economic situation of displaced persons and the RAE population remains a matter of serious concern. They continue to face very difficult living conditions and discrimination. Implementation of legislation and strategies must be pursued with more determination. Increased financial resources are also required. The Law on Minority Rights and Freedoms has not yet been harmonised with the Constitution regarding minority representation.

Regarding *displaced persons* from Bosnia and Herzegovina and Croatia, a legal framework to address their status has been put into place but its effective implementation still needs to be ensured. Montenegro must resolve the status of displaced persons from Kosovo and work on improving their access to economic and social rights, which remains limited. Their situation continues to be a cause for concern.

Regarding ***regional issues and international obligations***, cooperation of Montenegro with the International Criminal Tribunal for the former Yugoslavia (ICTY) is satisfactory.

Investigation and court proceedings in Montenegro's limited number of domestic war crimes' cases have made headway. Cooperation with neighbouring countries in this field has improved. The case of the survivors and families of deported Bosnian civilians in 1992 was settled out of court.

As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the relevant EU Common Positions and guiding principles. The country needs to align with the EU position.

Montenegro has continued to participate actively in regional cooperation initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Montenegro holds the chairmanship of CEFTA during 2009. The Regional School for Public Administration (ReSPA) in Danilovgrad near Podgorica has become operational.

Relations with other enlargement countries and neighbouring Member States have continued to improve and bilateral cooperation in specific fields has intensified. In particular, progress has been achieved towards settling bilateral border issues between Montenegro and Croatia, who have been co-operating on preparing their submission to the International Court of Justice on the Prevlaka border issue.

The **economy** of Montenegro decelerated markedly in 2009. As a result, public finances came under severe pressure and public debt further expanded. However, the economy did not slip into a deep recession, and the external financing risks did not fully materialise. Despite the economic crisis, the government pushed forward a series of structural reforms. Enhancing the rule of law and upgrading infrastructures remain key challenges for economic development.

As regards the **economic criteria**, the country has made further progress towards establishing a functioning market economy. In order to enable it to cope in the medium term with competitive pressure and market forces within the Union, it should continue comprehensive reforms to reduce structural weaknesses.

External imbalances and inflation were reduced as a result of the deceleration of economic activity. Labour market indicators continued to improve, despite the slow down in growth. Foreign parent banks sustained financing to their local subsidiaries, thus supporting the stability of the financial system in the absence of a lender of last resort. The budget deficit was reduced by curtailing spending and by receipts from the privatisation of large network systems. Public debt grew, but remained at moderate levels. Legislation to enhance certainty about property rights has been adopted. Legislative simplification proceeded in view of removing business barriers and the backlog in bankruptcy cases decreased. The state's role in the economy increased, in response to the unfolding crisis, but it was limited to providing loans and loan guarantees for key sectors of the economy.

However, conditions for Montenegro's manufacturing sector deteriorated sharply, as it was hit by contracting external demand and by falling international prices for steel and aluminium. Restructuring of the aluminium and steel plants remain a considerable challenge. The financial system suffered a severe liquidity crunch at the end of 2008 and early 2009 as a result of large deposits withdrawals. Interest rates remained high despite liquidity injections in the banking system. Public finances came under severe pressure while government guarantees on loans piled up. The capital markets went through a severe correction, suffering substantial losses. A mismatch persists between labour supply and demand, forcing employers to resort to

foreign workers even though unemployment is high. The informal sector remains an important challenge.

Montenegro made further progress in aligning with **European standards**. The Interim Agreement continued to be smoothly implemented and the country's track-record in implementing its obligations under the SAA is being built. Good progress was achieved in consumer protection and research and in some areas of internal market and justice, freedom and security. Some progress was achieved in free movement of capital, customs and taxation, employment, agriculture and rural development, energy, statistics and in remaining areas under justice, freedom and security. Further sustained efforts are needed in these fields. Particular efforts are needed to improve implementation capacity. Progress in environment, transport, information society and media has been uneven. Limited progress can be reported in accreditation and conformity assessment, metrology, market surveillance and industrial policy.

As regards the *internal market*, Montenegro has made some progress in addressing related European Partnership priorities. Preparations in the area of *free movement of goods* continued. Good progress was achieved in consumer protection implementation. Market surveillance needs further development. Improvement of institutional and administrative capacities, inter-institutional cooperation and transposition of product-specific *acquis* is needed.

In the areas of *free movement of persons, services and right of establishment*, Montenegro partially meets alignment priorities. The Law on Employment and Work of Foreigners was adopted, foreseeing work permits and quotas for labour force and cross-border services. The liberalisation of the services market further advanced. The institutional framework for the supervision of the banking and non-banking financial sector continued to improve but further strengthening is needed. A strategy for the postal services sector has been adopted. New rules for business reporting and supervision requirements increased accounting transparency and auditing effectiveness. However, further efforts to consolidate progress are needed in these areas.

Progress in the area of *free movement of capital* was achieved by the adoption of the Law on Property Relations and the Law on State Property. Equal treatment is not yet granted to foreigners as regards the purchase of agricultural land, for which the new law provides the option of long-term leasing.

The alignment of *customs and taxation legislation* with the *acquis* is on track. However, further alignment is needed in the areas of origin, transit and simplified procedures, customs valuation and fees. The fight against corruption and tackling the informal economy remain major challenges.

In the area of *competition*, alignment with the *acquis* continued. Further strengthening of the competition framework and upgrading of administrative capacities are required, especially with reference to state aid control.

In the area of *public procurement* Montenegro continued to align its legislation with the *acquis*. Training and awareness-raising activities were carried out. However, further alignment of legislation and strengthening of administrative capacity are needed.

Some progress can be reported in the area of *intellectual property rights*. The new Law on Patents strengthened the legislative framework. The procedure of recognition of rights at

national level was improved. However, preparations are at an early stage, and institutional and enforcement capacity and public awareness need further development.

Montenegro continued to make progress in the area of *social policies and employment*. However, legislation still need to be further aligned towards European standards and the administrative capacity in the area of social policies and employment, in particular to effectively implement new legislation needs to be enhanced. Further efforts are also required to strengthen administrative and institutional capacity in the area of *public health policy*.

Further progress has been made in the areas of *education and culture*. There has been good progress on *research*, particularly on strengthening the institutional framework and through participation in the Seventh Framework Programme for Research and Development.

Montenegro adopted the necessary legislation with a view to acceding to the World Trade Organisation.

As regard *sectoral policies*, in the area of *industrial policy* Montenegro has started to address alignment priorities while it partially meets them as regards *SMEs policy*. Further effort is required to remove existing business barriers, speeding up licences and permits, and to fully implement measures, such as SME credit guarantees, incubators and clusters.

Some progress can be reported in the area of *agriculture and rural development*, as well as *fisheries*, as regards the reform of legislation and the adoption of national programmes and strategies. However, implementation needs to be enhanced. As regards *food safety, veterinary and phytosanitary policy*, there has been some progress mainly on strengthening the legislative framework, however an integrated food safety system is yet to be established. Progress on strengthening the administrative capacity of the Ministry for Agriculture, Forestry and Water Management remains limited and needs upgrading also in view of its preparation for IPARD.

Progress in the area of *environment* remains uneven. While progress can be reported on adoption of horizontal legislation, implementation and enforcement need to be further strengthened. The Environmental Protection Agency needs to be equipped with the necessary resources to perform its functions. Insufficient environmental protection, especially in coastal areas and national parks, remains a cause for concern.

As for *transport policy*, preparations are moderately advanced in road and railway but still at an early stage in air and maritime transport. Progress on safety aspects of all transport modes has been limited. Montenegro should develop a coherent strategy for the development of its transport sector. Considerable efforts are required to establish adequate administrative capacity.

Some progress can be reported in some *energy* sectors. There have been steps towards meeting the requirements of the Energy Community Treaty, but further efforts are needed. The promotion of energy efficiency and renewable energy resources need to be prioritised.

Some progress has been made on *information society and media* with the agency for electronic communications and postal services becoming operational. However, concerns remain on the independence of the Electronic Communications Agency and delays in the implementation of the Law on Electronic Communications. The relevant Montenegrin authorities need to urgently address and resolve the issue of the competence and procedure for

the allocation of broadcasting frequencies. Legislation and practice need to be brought in line with European standards in this area.

Montenegro's preparations in *Public Internal Financial Control (PIFC)* and *external audit* are at an early stage of implementation. Basic legislation on PIFC has now been adopted. Qualified state auditors and audits are increasing and the State Audit Institution is developing its administrative capacities.

The 2009-2012 government strategy for *statistics* gives the statistical office of Montenegro the coordinating role for developing the statistical system in compliance with the European Statistics Code of Practice. Progress was made in sector and macroeconomic statistics, while it was limited for classifications and registers. Legislative framework and administrative capacity need further improvement.

In the area of *justice, freedom and security*, Montenegro has continued to address key challenges. However, sustained efforts to carry through implementation of reforms are required. Regarding visa liberalisation, Montenegro has made significant efforts in all areas included in the roadmap. On the basis of the progress achieved, the Commission proposed in July 2009 lifting the visa obligation for Montenegrin citizens, on condition that Montenegro meets the outstanding roadmap benchmarks before the Council takes its decision.

Some progress has been made in the area of *visa policy*. Implementation of the visa facilitation and readmission agreements has proceeded. A new Law on Foreigners and a new Visa Regulation based on the Schengen rules have entered into force. However, Montenegro should make further efforts to improve its own visa regime and to bring it in line with European standards. Its administrative and technical capacities for issuing visas need to be substantially reinforced.

Regarding *border management*, Montenegro has made good progress in the area of border control. It has continued to implement its integrated border management strategy. Some improvement has been noted in terms of equipment at border crossing points. However, new legislation on state border control, including border surveillance, remains to be adopted. Linking all border crossing points into an online network with access to the national and Interpol database needs to be addressed as a priority.

Some progress can be reported in the areas of *asylum* and *migration*. In the field of *asylum* the legislative and institutional framework is almost complete. However, proper implementation of legislation must be ensured. In the area of *migration*, key legislation has been adopted. A detention centre for illegal migrants is still to be constructed. Further efforts are required to implement legislation. Administrative capacity and institutional co-operation need to be enhanced. The status of displaced persons must be addressed.

Montenegro continued to make some progress in the area of *money laundering*, however the reduction in the number of investigations and suspicious transaction reports is of concern. Determined efforts are required to enhance the competencies and investigative capacities of the authorities, in particular of the financial intelligence unit. Money laundering remains a serious cause for concern and further efforts are needed to prevent and combat it.

Montenegro has made some progress in *anti-drugs policy*. The national strategic response to narcotics and the associated action plan are being implemented. The institutional framework for fighting drug crime has been strengthened and seizure levels have increased. However,

drug trafficking by organised crime groups remains a matter of serious concern. Montenegro needs to intensify its efforts in the area of anti-drugs policy.

Some progress can be noted in the area of policing, through the continuation of *police* reform and the establishment of a track record in the area of internal control. However, professional capacity, equipment and infrastructure need to be further improved.

The institutional, legal and administrative capacity to *fight against organised crime* has been strengthened. However, organised crime remains a matter of serious concern which affects the rule of law and business environment. Investigation and prosecution capacities remain insufficient, resulting in rare final convictions in cases of organised crime. Enhancing human resources and strengthening inter-agency cooperation must be addressed as a priority. There has been good progress in the fight against *trafficking of human beings*. Montenegro continues to be used primarily as a transit country. Investigations of cases concerning trafficking in human beings have been conducted and convictions have been passed. Further measures are necessary to enhance the capacity of the responsible authorities to identify potential victims.

Some progress in the area of personal *data protection* was achieved with the adoption of the legal framework. However, the law is not fully in line with the *acquis* and the supervisory authority has not yet been established.

Serbia

Serbia has made progress in meeting the **political criteria** and addressing key European Partnership priorities. The government has demonstrated its commitment to bringing the country closer to the European Union by undertaking a number of initiatives including the implementation of provisions of the Interim Agreement. Cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has further improved, however ICTY indictees Ratko Mladić and Goran Hadžić are still at large.

A number of initiatives were taken to consolidate **democracy and the rule of law**. However, further reforms are needed to ensure that the new constitutional framework is implemented in line with European standards, particularly in the area of the judiciary.

Parliament revised its rules of procedure and this has led to improvements in its work and the legislative process. The adoption of a new Law on Political Parties has, moreover, established clearer and stricter rules for party registration. Election legislation, however, has not yet been revised to bring it fully in line with European standards. Parliament has not sufficiently used its powers of oversight over the executive and the capacity of parliamentary committees remains weak.

The *government* has demonstrated a high degree of commitment to European integration and has been active in preparing legislation across a range of areas and implementing a national programme on European integration. However, insufficient attention has been paid to effective implementation of existing laws and impact assessment. Planning of government work needs to be strengthened and greater coordination between ministries ensured.

The *public administration* has good overall capacity. The Serbian European Integration Office has been functioning well however administrative capacity on European integration within line ministries needs to be strengthened. Overall reform has been slow. Transparency,

impartiality professionalism and accountability have to be improved and greater priority given to fighting corruption and supporting the work of independent bodies. Independent and regulatory bodies function relatively well, within the constraints imposed by limited resources.

There has been some progress in terms of *civilian oversight of the security forces*, with more involvement of the parliamentary committee for security and defence. Legislative reform has however still to be completed.

As regards the *judicial system*, a package of laws was adopted, introducing a broad reform of the judiciary and a reorganisation of the court system. Two new bodies – the High Judicial Council and the State Prosecutorial Council – were established. However, there remain concerns about the way in which the reappointment procedure for all judges is being carried out and the risk that the lack of transparency could lead to long term politicisation of the judicial system. The backlog of court cases has not been reduced and court procedures still need to be streamlined and an efficient court management system introduced.

Serbia made progress in the fight against *corruption*. The law enforcement authorities have shown higher commitment to fighting corruption, leading to the arrests of several suspects, and a number of high-profile cases have been opened. Parliament has elected the executive board of the new Anti-Corruption Agency which will become operational in 2010. Corruption, however, remains prevalent in many areas and continues to be a serious problem. Public procurement and privatisation are particularly vulnerable sectors. Final convictions in corruption cases are rare. There are shortcomings in the Law on the Anti Corruption Agency and there is insufficient supervision of the financing of political parties and of cases of possible conflict of interest.

The legal and institutional framework for *human rights and the protection of minorities* is in place and *civil and political rights* are broadly respected. However, existing constitutional and legal guarantees need to be fully enforced.

There has been some improvement in the *prevention of torture and ill-treatment*. The State Ombudsman reported a decrease in the number of cases of ill-treatment. However, some allegations against the police have not been fully investigated. As regards *access to justice*, there was no progress in adopting legislation and establishing a comprehensive system of free legal aid. Regarding *prison system* reform, initial steps were taken to introduce a system of alternative sanctions however the practical effects of these measures have been limited. Overcrowding, violence and drug abuse remain a concern.

Freedom of expression is generally protected under the Constitution and hate speech is prohibited. In practice, there have been incidents involving hate speech, threats and physical attacks against journalists, human rights defenders and the lesbian, gay, bisexual and transgender (LGBT) population, and the perpetrators have not been brought to justice. As regards the *media*, the Law on Public Information was amended introducing additional media regulation. Concerns, however, have been expressed by professional associations and international organisations over the lack of transparency and lack of public consultation prior to the adoption of the amendments. There are concerns, moreover, that some of the new provisions, such as the severity of penalties for violating professional norms, may have the effect of infringing on media freedom. The right to *freedom of assembly and association* is provided for in the Constitution and has been further enhanced by the new Law on Associations. These freedoms are generally protected however a planned Belgrade Pride

Parade had to be cancelled in September 2009 at the last minute amid threats of violence against the organisers and participants by extremist groups.

Civil society continues to play an active part in the social, economic and political life of Serbia. The new Law on Associations has clarified the legal status of NGOs. There have been some efforts within the Serbian administration to improve cooperation with civil society but this needs to further developed.

There are constitutional guarantees in place allowing for *freedom of religion*, and discrimination on religious grounds is prohibited. However, the implementation of the 2006 Law on Churches and Religious Communities has produced discriminatory effects regarding the registration of so-called "non-traditional communities".

The legal provisions on the protection of *economic and social rights* are largely in place. Greater emphasis now needs to be paid to ensuring more effective enforcement of legislation. A national strategy to improve the position of *women* and promote gender equality has been adopted and discrimination based on gender is prohibited. However, a specific law on gender equality has not yet been adopted and the protection of women against violence needs to be considerably strengthened. Concerning *children's rights*, a national strategy for the protection of children from violence was adopted. More concerted efforts are needed to be taken in order to increase awareness of the situation of *socially vulnerable groups and persons with disabilities* and ensure that their rights are protected. A Law on the Prohibition of *Discrimination* was adopted which further develops the legal framework for the protection against discrimination. In practice, however, there is ongoing discrimination, particularly against vulnerable groups such as Roma, persons with disabilities and the LGBT population.

As regards *property rights* the lack of a clear legal basis for property restitution continues to prevent the proper launching of this process.

The legal framework is in place providing for *minority rights and cultural rights*. The new Law on National Minority Councils has also been adopted. The Ministry for Human and Minority Rights has played an important role in raising awareness and promoting minority rights, as has the state and provincial ombudsmen. In addition to the Constitution, new anti-discrimination legislation explicitly prohibits the discrimination against ethnic minorities.

As regards *Vojvodina* no agreement has been reached at national level on the adoption of a new Statute. An agreement on the restructuring of the Government Coordination Body for *southern Serbia* was reached. However the situation in southern Serbia deteriorated in July 2009 following a number of attacks on the Serbian gendarmerie. The situation in *Sandžak* is volatile; divisions within the Muslim community have continued and there have been several outbreaks of violence.

The number of *refugees* and *internally displaced persons (IDPs)* in Serbia remains high. The situation for IDPs continues to be very difficult and they are faced with many obstacles in exercising their social rights.

During the Serbian Presidency of the *Roma* decade, Serbia adopted a national strategy for the improvement of the status of the Roma. However, further efforts are needed to ensure its full implementation. The Roma population continues to endure very difficult living conditions and frequent discrimination.

As regards **regional issues and international obligations** Serbia has made further progress in its cooperation with the ICTY. In his address to the UN Security Council in June 2009, the ICTY Chief Prosecutor stated that the Serbian authorities have responded adequately and in a timely manner to specific requests for assistance and that cooperation must continue and lead to further concrete and positive results. A number of search operations have taken place, however ICTY indictees Ratko Mladić and Goran Hadžić are still at large. Full cooperation with the ICTY remains an international obligation and a key priority of the European Partnership.

Serbia, together with its neighbours, should address the regional impunity gap, including by taking steps towards extradition agreements covering war crimes cases.

Serbia continued to actively participate in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Bilateral relations with other enlargement countries and neighbouring EU Member States have improved. However, further progress is required towards finding definitive solutions to the various bilateral issues which remain open, particularly as regards borders. Regional cooperation was, however, affected by Serbia's approach to participation by Kosovo in regional fora.

Serbia contests Kosovo's¹⁰ declaration of independence and has pursued legal and diplomatic measures to this effect, including through the International Court of Justice (ICJ). The Serbian government does not have official contact with the Kosovo authorities, insisting on dealing only with UNMIK and EULEX. The government maintained parallel structures in Kosovo and held local by-elections while, at the same time, discouraging Kosovo Serbs from participating in municipal elections organised by the Kosovo authorities. As regards trade, the Serbian government does not recognise Kosovo's customs stamps that have been notified to the European Commission and which are, according to UNMIK, consistent with the provisions of UNSCR 1244. Serbia's refusal to recognise Kosovo's customs stamps raises serious concerns. Serbia and Kosovo need to reach pragmatic solutions enabling key regional *fora* to continue fulfilling their role in advancing regional cooperation and development.

The Serbian government has taken first steps to cooperate with the EU rule of law mission (EULEX) but these efforts need to be further strengthened. In September 2009 EULEX and Serbia signed a protocol on police cooperation.

The **economy** of Serbia was severely hit by the current global economic crisis. Growth slowed down by the end of 2008 and the economy entered into recession in 2009. As a result, macro-economic stability has deteriorated. Moreover, previously expansionary policies and the lack of discipline have led to a significant fiscal deterioration.

As regards the **economic criteria**, Serbia made only limited further progress towards establishing a functioning market economy. Further efforts will be needed to enable Serbia to cope in the medium-term with the competitive pressures and market forces within the EU. Structural reforms need to be accelerated.

The liquidity of Serbian banking system has been maintained and Serbian banks are well capitalised and by and large profitable. On the external side, the Serbian economy is going

¹⁰ Under UNSCR 1244/99.

through a process of rapid external adjustment. This is reflected in a substantial decrease in the current account deficit. Foreign exchange reserves remained stable. Consensus on the fundamentals of a market economy has been maintained, but the government lacks a medium-term structural reform strategy.

In response to the deepening economic crisis, Serbia requested assistance from the IMF and the EU and agreed to undertake a number of fiscal measures to reduce overall expenditure. However, as the crisis aggravated, the IMF programme was revised. Measures to improve the medium-term public finance sustainability are lacking. The monetary policy framework for inflation targeting remained difficult to implement and risks undermining the credibility of the central bank. Inflation remained relatively high. Some progress was made in privatisation of socially-owned companies, but not with the state-owned companies, thus affecting the dynamism in the private sector. Unemployment remains at a persistently high level. Excessive administrative requirements continued to hamper market entry and exit. Legal predictability needs to be improved, in particular with respect to effective enforcement of property rights. The informal sector remains an important challenge.

Serbia has made progress in aligning its legislation and policies to **European Standards** and has started to implement the Interim Agreement according to the provisions and schedules established in that agreement. Customs duties were lowered with effect from 30 January 2009, and relevant measures were taken in the areas of competition, state aid and transit traffic. Furthermore, Serbia has adopted important legislation in a number of areas including agriculture, environment, employment, competition, public procurement and justice, freedom and security. Administrative capacity has been improved in key areas for the implementation of the Stabilisation and Association Agreement. However, Serbia needs to make further efforts to ensure effective implementation and enforcement of EU-related legislation.

With regard to *internal market*, Serbia has made some progress in aligning its legislation, and strengthening institutional capacities. There has been good progress in the field of *free movement of goods*; the adoption of new legislation on standardisation and conformity assessment has set the basis for further alignment with the *acquis*. The institutional capacities of the Standardisation Institute and the Accreditation Body were improved and Serbia has increased the number of adopted European standards. Some progress was made in the field of consumer protection with the adoption of legislation on product safety and electronic trade. However, administrative capacity needs to be further improved. Legislation on accreditation and metrology has not yet been adopted. Serbia needs to step up efforts to establish a market surveillance system. New legislation on consumer protection has yet to be adopted.

Serbia is moderately advanced in the areas of *movement of persons, services and the right of establishment*. Some progress was made in terms of legislative alignment in the area of postal services. With regard to financial services, a roadmap was prepared with the aim of implementing new banking regulations. However, a number of laws are missing or are not in line with European standards, notably in the areas of banking regulation. In the area of *free movement of capital*, Serbia needs to continue its efforts to fully liberalise current account transactions and lift restrictions on short term credit and portfolio investments.

Serbia has made good progress in the area of *customs*. The capacity of its customs administration was enhanced and a set of legal acts was adopted in order to implement the Interim Agreement. However, further alignment with the EU Customs Code is required, in particular with regard to transit and risk analysis. Serbia has taken steps to further develop its legislative framework in the area of *taxation*. Tax collection procedures have improved as

have the enforcement capacities of the tax administration. Serbia has to further improve the collection of registered debts and to continue alignment in the area of excise duties and VAT.

Serbia has made good progress in the area of *competition and state aid* by adopting new legislation. The Commission for the Protection of Competition needs to strengthen its capacity to carry out economic analysis. Moreover, an independent state aid authority has still to be established.

Serbia has made good progress in the area of *public procurement* with the adoption of new legislation. However, members of the new Commission for the Protection of Bidders' Rights have still to be appointed. Serbia has continued to make progress in the enforcement of *intellectual property rights*. The administrative capacity of the Intellectual Property Office has improved. However, the questions on financial independence need to be resolved and the problem of the shortage of competent judges addressed in order to ensure effective enforcement of intellectual property rights.

In the area of *employment policy* good progress was made with the adoption of several important laws and of the National Strategy for Employment for 2009. The record of implementing employment measures and policies has improved, but coordination with other policies needs to be strengthened. Some progress can also be noted in the field of *social policies* although the legislative framework needs to be developed further and the existing legislation properly implemented. There has been some progress in the field of *public health policy*, mainly in primary healthcare reform and disease prevention. Further efforts must be made towards the alignment with European standards.

Progress has been made in the areas of *education and culture*. In the area of *science and research* and innovation Serbia has made important efforts in promoting research cooperation and participating in projects under the Seventh EC Framework Programme for Research and Development. However, substantial efforts are needed by Serbia to strengthen its national research capacity and to ensure further integration into the European Research Area.

Serbia's preparations to join the *WTO* are well advanced and a number of WTO compatible laws have been adopted.

With respect to *sectoral policies*, in the areas of *industry and SMEs*, the institutional framework has improved and Serbia has started implementing its SME strategy objectives. However, a modern industry policy strategy in line with the EU approach has not yet been adopted.

There has been progress in alignment with the *acquis* in the areas of *agriculture and rural development* with the adoption of important framework laws. This is also the case with regard to food safety however little progress has been made on the upgrading of food and by-food establishments. There has been some progress in the *veterinary and phytosanitary* areas but only limited progress in the upgrading of *laboratories* for the control of the food chain safety.

Serbia has made good progress in the area of *environment*, notably with the adoption of a large package of laws and with the ratification of international conventions. Institutional capacity and technical and human resources, however, remain weak, especially at the local level. Further efforts need to be invested in the adoption of water related legislation and the overall environmental capacity building.

In the area of *transport*, a new Law on Road Safety has been adopted and road tolls for domestic and foreign vehicles have been harmonised. The European Common Aviation Area Agreement (ECAA), the Montreal Convention and the Horizontal Agreement on Certain Aspects of Air Services have been ratified. However, problems have arisen regarding Serbia's compliance with market access obligations under the ECAA. More generally, further efforts are required to implement the first transitional phase of the ECAA and improve coordination between the Ministry of Infrastructure and the Civil Aviation Directorate. Rail transport remains in need of major restructuring.

Serbia has made some progress in the *energy* sector. Further efforts are needed to comply with the Energy Community Treaty requirements, and to address outstanding issues in relation to environmental aspects in the energy sector and nuclear safety. As regards security of supply, some progress has been made in increasing gas reserves however natural gas interconnections between Serbia and other countries of the region remain limited.

In the areas of *information society and the media*, progress was made through the adoption of several pieces of legislation. Serbia also ratified the European Convention on Transfrontier Television. Institutional and regulatory capacity is still limited and progress remains contingent on the implementation of the legislation.

Progress was made in the area of *financial control*. A comprehensive policy paper on public internal financial control (PIFC) was adopted by government. The Budget System Law, which also includes the legal basis for PIFC entered into force. Preparations for the introduction of a modern and effective system of public *financial control* however remain at an early stage. The recently established State Audit Institution is not yet fully operational.

A new development strategy for *statistics* has been adopted. Progress has also been reported in the field of sector statistics with the preparation and conduct of surveys and censuses. However, Serbia still needs to put additional efforts into creating a fully operational business register and into further strengthening administrative capacity.

There has been progress in the area of *justice, freedom and security*. The visa facilitation and readmission agreements between Serbia and the European Community continued to be implemented. Serbia made significant efforts in all areas of the visa liberalisation roadmap, in particular regarding the introduction of new biometric passports. On the basis of Serbia's progress, the Commission in July 2009 proposed lifting the visa obligation for Serbian citizens, on condition that Serbia meets the outstanding criteria before the Council takes its decision.¹¹

Implementation of the new law on *border control* has started, but further efforts are needed to improve the technical standards and equipment of certain border crossing points and the control of the boundary line with Kosovo.

Serbia has made little progress in the area of *asylum*. Despite some weaknesses, asylum procedures are by and large satisfactory. However, there has been little forward planning to address the potential increase in the number of applications and there is no coordination body for the integration of asylum seekers. Good progress was made in the area of *migration* with the adoption of the migration management strategy and the implementation of the Law on

¹¹ COM(2009) 366.

Foreigners. However, further efforts are needed to implement newly adopted strategies and to improve the monitoring of migration flows.

Money laundering continues to be an area of concern. The Law on the Prevention and Fight against Money Laundering and Terrorist Financing was adopted. However, reports on suspicious transactions are mostly limited to the banking sector and the number of investigations and convictions in money-laundering cases remained low.

Serbia is a major transit country for the smuggling of *drugs* to Europe. A strategy for the fight against drugs was adopted as well as an action plan. Enforcement authorities seized a large amount of drugs. However, drug trafficking through Serbia remains of serious concern.

There was some progress in the reform of the *police*. Capacity building and training as well as international and regional cooperation increased. However, strategic planning and internal control need to be improved. A national strategy to fight *organised crime* has been adopted. First steps have been taken to improve the institutional and legal framework for financial investigations and seizure of assets. However, the adoption and entry into force of a revised new Criminal Procedure Code has been further delayed. Investigative capacities remain weak, leading to a low number of final convictions in this area. Sustained efforts are needed in the fight against organised crime which remains a matter of serious concern.

Serbia made some progress in the fight against *trafficking in human beings*. The Council of Europe Convention against trafficking in human beings was ratified and an action plan was adopted. Cooperation between various stakeholders, including NGOs, in the fight against trafficking has improved. However, the number of final convictions in this area remains low, while the percentage of under-age victims continued to rise.

Some progress has been made in setting up the legal and institutional framework for the *protection of personal data*. However, further efforts are needed to fully align the existing legislation with European standards and ensure proper implementation of the relevant provisions.

Kosovo

Kosovo has made some progress in addressing key European Partnership priorities, in particular by strengthening its legal framework with respect to the **political criteria**. The priority must now be implementation. In the second year following the declaration of independence, Kosovo's institutions are in place and fulfil their responsibilities in cooperation with the relevant international organisations. However, the capacity of the public administration and of the assembly is particularly in need of strengthening. Sustained efforts are needed on judiciary reform and to step up the fight against corruption, organised crime and money laundering. Cooperation in practice with the EU rule of law mission (EULEX) does not match political commitments and needs to be improved in a number of fields within its mandate.

The security situation in Kosovo is stable but fragile. There have been a number of incidents, including vandalism of EULEX property. Overall, public order has been maintained. The Kosovo authorities do not exercise full control throughout the territory of Kosovo, in particular in the north. Parallel structures continue to operate and parallel municipal by-elections have been recently held. The Kosovo government needs to better integrate all communities, in particular the Kosovo Serbs, and to consolidate the rule of law, with EULEX

support. The Kosovo Serb community needs to engage more constructively with Kosovo's institutions to increase the benefits of EU support and the European perspective. The upcoming municipal elections and extended decentralisation will be of particular relevance in this context. Belgrade's support is expected in this regard. Further efforts for reconciliation would contribute to enhancing stability in the region and to socio-economic development.

Regarding *democracy and the rule of law*, Kosovo's authorities have largely respected the relevant constitutional provisions in their work. However, there has been limited progress in consolidating the rule of law in Kosovo.

The *assembly* annual work plan for 2009 has been adopted and is in line with the government's legislative strategy. However, the assembly's capacity to scrutinise draft legislation and monitor its implementation after adoption is weak. Parliamentary oversight over the executive is limited. In particular, the capacity of the Committee on European Integration to oversee the adoption of legislation compatible with EU standards needs to be enhanced.

The main structures of *government* are in place and political stability in Kosovo has been maintained. Some progress can be noted in the area of local government administration reform. A revised, and improved, European Partnership Action Plan was adopted in August. Kosovo should now focus on its implementation and further prioritisation. Inter-ministerial coordination to drive Kosovo's European reform agenda remains weak. Effective administrative structures in this area are essential for fulfilling Kosovo's European perspective. The Agency for Coordination of Development and European Integration has strengthened its coordination capacity, but lacks the high-level political support to pilot a real European integration process.

There has been some progress in *public administration reform*. The review of tasks and responsibilities within the public administration has been completed and the majority of recommendations implemented. However, some key legal acts are yet to be adopted. Political interference in the civil service and in the process of public appointments remains a concern. Sustained efforts are needed to strengthen capacity throughout Kosovo's public administration and to establish the framework of a professional, accountable, independent and merit-based civil service capable of effectively implementing government policies. The Ombudsman office needs to be strengthened further. Public administration in Kosovo remains weak.

There has been limited progress as regards the *judicial system*. The reform process is still at an early stage. The Constitutional Court has been established and its members nominated. The new court management information system is operational in most courts. The court in Mitrovica has been re-opened for criminal cases, with the support of EULEX. The Kosovo Judicial Council has been appointed. There has been some progress in adjudicating war crimes cases.

However, major efforts are needed to enhance the independence and professionalism of the judiciary in Kosovo. There is a considerable backlog of unresolved cases, related to both civil and criminal justice. There is no effective mechanism for disciplinary proceedings against judges. Constructive efforts from the government and from the Kosovo Serb community are needed to ensure the latter's integration in the judicial system. Kosovo's judiciary remains weak and inefficient. The rule of law is not effective throughout Kosovo, in particular in the north.

The *anti-corruption* agency is operational and has strengthened its capacity, but its powers are limited. Despite certain measures taken, corruption remains prevalent in many areas and is a very serious concern. The legislative framework in this area remains incomplete. There is no law on the financing of political parties. The anti-corruption strategy and action plan are yet to be adopted. Cooperation among actors involved in the fight against corruption needs to be significantly enhanced. The independence of the anti-corruption agency needs to be guaranteed. Kosovo needs to develop a track record of investigations, indictments, prosecutions and convictions in anti-corruption cases.

The constitution guarantees ***human rights and the protection of minorities*** and lists the main international agreements and instruments directly applicable in Kosovo. However, further efforts are required to ensure these rights are protected in practice, including determined steps to integrate all of Kosovo's communities.

The reticence of the Kosovo Serb community, in particular in the north, to participate in Kosovo's institutions is a major obstacle. Sustained efforts are needed to address this both by the government and by the Kosovo Serb community. A more constructive approach from Serbia is also necessary.

There has been limited progress on *civil and political rights*. As regards *access to justice*, the legal aid system is functioning, but requires further strengthening. Some progress has been achieved with regard to *prisons* and other correctional facilities. However, there are still a number of challenges, notably as regards detention conditions for mentally-ill and juvenile offenders and their reintegration after release. There has been limited progress as regards the prevention of *torture* and *ill-treatment* and the fight against *impunity*.

Freedom of expression is not fully guaranteed in practice. There have been cases of political interference in the work of the media. The legal framework as regards *freedom of association and assembly* has been developed further.

Civil society needs to be integrated better in policy formulation and implementation. There has been some progress as regards *freedom of religion*, notably in terms of reconstructing religious sites. More remains to be done to promote reconciliation between different religious communities. There is no law on *missing persons*. The issue of compensation for the families of missing persons needs to be addressed.

Economic and social rights are not fully guaranteed. The protection of *women* against all forms of violence needs to be considerably strengthened. Child trafficking and child labour remain a concern. Further efforts are needed to guarantee *children's* rights. The government adopted an action plan for people with disabilities. However, the integration and protection of socially vulnerable groups and people with disabilities is not fully ensured. *Discrimination* remains an issue of concern and needs more government awareness campaigns. Laws and strategies are in place but their implementation is poor. The institutional and legal framework in the area of *property rights* has been strengthened. The inability of the authorities to implement their decisions throughout Kosovo remains a major obstacle to protecting property rights. The security of religious property is generally assured.

As regards *minority rights, cultural rights and the protection of minorities*, the legislation in force provides a highly protective environment for minority and cultural rights. However, these are not adequately guaranteed in practice. There has been little progress as regards reconciliation between communities. This is a major challenge for the authorities. The number

of voluntary returns of *refugees* and *internally displaced persons* remains low. Disputes over contested land between some municipalities and the Serbian Orthodox Church have still not been resolved.

The Roma, Ashkali and Egyptian communities continue to face very difficult living conditions and frequent discrimination. Urgent measures are needed to relocate the Roma families living in hazardous and unacceptable conditions in lead-contaminated areas in northern Kosovo. The authorities need to make further efforts to reach out to all minorities and to ensure their protection and integration.

Concerning *regional issues and international obligations*, during the reporting period Kosovo continued to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). The EU continues to emphasise that regional cooperation must be inclusive in order to be successful and regrets that disagreements regarding the manner of Kosovo's participation in regional fora have resulted in Kosovo's absence from key regional events. Kosovo adopted new customs stamps, which were notified by the Special Representative of the UN Secretary General to the European Commission and CEFTA partners as compliant with UNSCR 1244/99. Serbia has not recognised the validity of these stamps, questioning their compliance with UNSCR 1244/99. Kosovo and Serbia need to reach pragmatic solutions enabling key regional fora to continue to fulfil their role in promoting regional cooperation and development.

The **economy** of Kosovo has been only moderately affected by the crisis so far. GDP continued growing, albeit from a very low base, but unemployment remained very high. High inflation has turned into deflation, following drops in the prices of imports. Economic development continues to be seriously impeded by weak rule of law, a very limited and poorly diversified production capacity, and by a weak transport and energy infrastructure. Fiscal policies are driven by ad-hoc demands and lack a systematic link to the medium-term policy framework. The stability of the energy supply improved, at the cost of increasing subsidies from the budget.

As regards the **economic criteria**, Kosovo has made very little progress towards establishing a functioning market economy. Considerable reforms and investments must be pursued to enable it to cope over the long term with competitive pressure and market forces within the Union.

A broad consensus on free-market policies has been maintained. The use of the euro, the absence of significant amounts of external debt and the very low level of exports have shielded the economy from the negative effects of the global recession. The banking sector remained sound, profitable and well capitalised. Economic growth was driven by the continued expansion of credit and by increased foreign assistance. After a significant surplus in the previous year, the 2008 budget posted a small deficit. Fiscal revenues increased slightly. In June, Kosovo joined the International Monetary Fund and the World Bank.

However, the already large trade deficit continued to widen, notably due to substantial imports of machinery and transport equipment for a major road construction programme. Both fiscal and external accounts became even less sustainable, mainly as a result of poor policy planning and implementation. Exports fell sharply in 2009, from an already very low base, as a consequence of the economic crisis. Economic statistics remain inadequate. The cost of finance remained high, as banks continued to attach high risk premiums to business loans. Budget subsidies and transfers increased. The weak rule of law, corruption, prevalent in many

areas, and uncertainty over property rights continued to be major impediments to economic development. Unemployment remains very high. Little progress was made towards an increased integration of Kosovo's young population into the labour market. The informal sector continues to pose an important challenge.

Progress in aligning Kosovo's legislation and policies with **European standards** is mixed. The legal framework has been developed further in the areas of customs, taxation, education, and policing. Approximation is at an early stage as regards environment, competition, intellectual property, energy and the free movement of goods, persons, services and capital. The implementation of European standards remains limited in the areas of financial control and statistics, data protection and the fight against money laundering and organised crime.

In the area of the EU **internal market** there has been some progress on *free movement of goods*. However, transposition and implementation of European practices and legislation is at an early stage. Administrative capacity remains weak. Alignment is insufficient in the areas of *free movement of persons, services and right of establishment*. Sustained efforts are necessary for progress in *free movement of capital*, notably to strengthen the financial sector regulation.

Customs revenue increased due to the improved effectiveness of the customs administration. The Customs and Excise Code has been adopted. The legal provisions on customs are compatible with European standards. However, the administrative capacity needs to be substantially reinforced and the fight against corruption needs to be intensified in the area of customs. Customs duties are still not collected in northern Kosovo. EULEX customs officers monitor the two gates in the north, which has reduced smuggling activity there. The legal framework as regards *taxation* has been developed further and lower tax rates have entered into force. Further efforts are needed to increase administrative capacity in this area and to reduce the size of the informal economy.

Implementing legislation for *public procurement* has been largely completed and the Procurement Review Body has been established. However, the implementation of the law in practice gives rise to serious concerns. The authorities need to investigate effectively cases of alleged corruption. Monitoring the implementation of procurement contracts needs to be significantly strengthened. Procurement officers in Kosovo remain vulnerable to interference and intimidation.

There is still no *intellectual property* rights strategy. Enforcement mechanisms for industrial rights, copyrights and related rights are weak. A *Competition* Commission has been set up and has investigated cases of alleged breaches of competition rules. Kosovo's competition legislation is not fully aligned with European standards.

The authorities need to streamline the various strategies addressing *employment* and to ensure their implementation. Legislation in the area of health and safety at work and in the area of social services and institutional care needs improvement. In the *public health sector*, administrative and institutional capacity needs strengthening to improve the quality of health care services. Little progress can be reported in the area of *social dialogue*. Alignment to European standards as regards *education* continues. However, institutional reform in this area is yet to be completed and policy recommendations need to be better translated into practice. In the area of *research*, the authorities have undertaken initiatives to facilitate cooperation with the EU, such as appointing Kosovo's coordinator for the 7th Framework Programme.

As regards **sectoral policies**, the institutional and legal framework in the area of *industry and*

SMEs remains incomplete. Efforts have been made in *agriculture*, with some progress as regards land consolidation and farm diversification. However, the capacity to implement policies is insufficient. A number of *environment* framework laws have been adopted. Major efforts are needed to implement them and to meet EU environmental standards.

In *transport*, Kosovo has embarked on a major road building programme, which contrasts with underinvestment in railways. Kosovo continues to participate actively in the Core Regional Transport Network and in the South-East European Transport Observatory. However, legislation incompatible with European standards has been adopted in the area of aviation. The board of the rail regulator is yet to be appointed. The board of the aviation regulator has been appointed, but is not yet operational.

Several important laws are yet to be adopted in the *energy* sector, which continues to face serious problems. Power cuts remain frequent. Continuing losses and low levels of bill collection, despite some improvement, limit the sector's financial viability. The government took a decision to build a new lignite-fuelled power plant, which will need to respect European standards. Kosovo's transmission system operator continues to face difficulties to participate as a full partner in regional commercial mechanisms.

In the area of *information society and media*, more efforts are needed to implement existing legislation and strategies. The administrative capacity and financial and political independence of the regulatory authorities, such as the Telecommunications Regulatory Agency and Independent Media Commission, require further strengthening. The board of the public service broadcaster needs to be appointed.

Limited progress can be reported as regards *financial control* and *statistics*. Continued efforts are needed to improve internal and external audit capacities. The statistical infrastructure remains weak.

There has been limited progress as regards **justice, freedom and security**. Coordination mechanisms have been established between the relevant agencies in the area of *border management*. However, borders remain porous, and police resources and capacities for border and boundary management need strengthening. Kosovo's capacity to handle *asylum* applications remains limited. The reintegration of repatriated persons is still limited. An appropriate readmission framework needs to be developed.

The capacity of judicial and law enforcement authorities to tackle *money laundering* is still weak. Money laundering is not defined as a crime in the relevant legislation. The existing legislative framework is inadequate and is not being fully implemented. There is no permanent structure to coordinate on the fight against money laundering. Reporting to the Financial Intelligence Centre is limited. Cooperation between this Centre and the tax authority remains insufficient.

During the reporting period, there has been an increase in the quantities of narcotics seized, in the number of cases investigated and in the number of persons arrested and prosecuted. Kosovo has adopted a strategy and an action plan to combat *drug trafficking*. However, cooperation between law enforcement agencies is still weak in this area. The secure storage of seized drugs is not fully ensured. Overall, drug trafficking remains a serious concern.

The basic legislative framework as regards *policing* is in place. Public order functions have been largely ensured. Most police officers from the Kosovo Serb community south of Ibar

river, who left the service following the declaration of independence, have returned to their stations. However, there have been a number of violent incidents, including targeted damage of EULEX property. The lack of a multi-ethnic public order police unit in the Mitrovica region diminishes police capability to tackle instance of public disorder in the north. The job descriptions for senior management police officers, one of whom is a Kosovo Serb, have been delayed. There are serious deficiencies as regards investigation capacities and intelligence-led policing. There is no strategy for the collection of weapons from the civilian population. The security of police evidence is not fully ensured. Further progress is needed in granting EULEX access to key databases in order to enable the effective conduct of EULEX investigations under its executive mandate.

Organised crime remains a serious concern and affects the rule of law and the business environment. A strategy and an action plan to fight organised crime have been adopted, but the legislative framework remains incomplete. The lack of a witness protection law and the limited capacity to provide witness protection inhibits police efforts in this area. Kosovo remains a source and a place of transit of organised crime activities. It also continues to be a source, a destination and a transit route for trafficked persons. The identification of victims and the investigation of trafficking crimes by Kosovo law enforcement remain a concern. Organised crime is a particular challenge throughout Kosovo, in particular in the north. Regarding *terrorism*, Kosovo has adopted a strategy and an action plan, but the legislative framework is not yet in place.

Kosovo still lacks legislation in the area of *data protection*. There is no independent data protection supervisory authority.

Turkey

Turkey continues to sufficiently fulfil the **political criteria**. Free and fair municipal elections took place throughout the country. Some progress has been achieved in the areas of reform of the judiciary, civil-military relations, and cultural rights. The government has begun a process of broad consultation with political parties and civil society with a view to addressing the Kurdish issue. However, significant further efforts are needed in most areas related to the political criteria, -in particular fundamental rights- and as regards constitutional reforms.

As regards ***democracy and the rule of law***, the investigation of the alleged criminal network Ergenekon has led to serious criminal charges, involving among others military officers. This case is an opportunity for Turkey to strengthen confidence in the proper functioning of its democratic institutions and the rule of law. However, it is important that proceedings in this context fully respect the due process of law, in particular the rights of the defendants. The Government reiterated its commitment to EU-related reforms, appointed a full-time Chief Negotiator and approved the National Programme for the Adoption of the *acquis*. However, the lack of dialogue and spirit of compromise between political parties is detrimental to the pursuit of reforms. Turkey still needs to bring its legislation on political parties in line with European standards.

As regards *public administration reform*, considerable further efforts are needed, in particular on the modernisation of civil service. Reducing red tape and promoting administrative simplification, as well as further developing a professional, independent, accountable, transparent and merit-based civil service remain priorities.

As regards *civilian oversight of the security forces*, some progress has been made in particular on limiting the jurisdiction of military courts. However, senior members of the armed forces continued making statements on issues going beyond their remit, and full parliamentary oversight of defence expenditure needs to be ensured. The alleged involvement of military personnel in anti-government activities, disclosed by the investigation on Ergenekon, raises serious concerns.

In the area of the *judiciary*, the adoption by the Government of the judicial reform strategy following a process of consultation with all stakeholders is a positive step. Measures to increase staff and funding are also positive. However, these efforts need to be continued, and concerns remain with regard to the independence, impartiality and effectiveness of the judiciary such as the composition of the High Council of Judges and Prosecutors and the establishment of the regional courts of appeal.

The legislative framework designed to prevent corruption has been improved. However, corruption remains prevalent in many areas. Turkey needs to finalise an anti-corruption strategy and to develop a track record of investigations, indictments, prosecutions and convictions.

Concerning *human rights and the protection of minorities*, some progress has been made but significant efforts are still needed. There was some progress as regards the *observance of international human rights law*. However, the ratification of the optional protocol to the UN Convention against Torture (OPCAT) and the implementation of some ECtHR judgements requiring legislative amendments remain outstanding. The institutional framework for promoting and enforcing human rights needs to be strengthened. An Ombudsman institution remains to be established.

While the Turkish legal framework includes a comprehensive set of safeguards against *torture and ill-treatment*, efforts to implement it and fully apply the government's zero-tolerance policy have been limited. Allegations of torture and ill-treatment, and impunity for perpetrators are still a cause for great concern. In order to assess accurately progress in this area it would be helpful that the Turkish authorities promptly authorise the publication of the Council of Europe's Committee for the Prevention of Torture (CPT) report.

As regards *prisons*, some progress was made on improving infrastructures and training, and recruiting additional staff. However, the problem of overcrowding and the high proportion of prisoners on pre-trial detention remain to be addressed.

Article 301 of the Turkish Criminal Code is no longer used systematically to restrict *freedom of expression*. However, there are prosecutions and convictions based on a number of other articles of the Criminal Code. Turkish law does not sufficiently guarantee freedom of expression in line with the European Convention of Human Rights (ECHR) and the ECtHR case law. Political pressures on the media and legal uncertainties affect the exercise of freedom of the press in practice.

Concerning *freedom of association*, the legal framework is broadly in line with European standards. However, considerable progress needs to be made as regards its implementation; associations face disproportionate scrutiny of their activities which in some cases has led to judicial proceedings.

As regards *freedom of religion*, implementation of the law on foundations has been smooth. The Government has undertaken a dialogue with the Alevi and non-Muslim religious communities. However, their specific problems still have to be addressed. The law on foundations does not address the issue of properties seized and sold to third parties, or of properties of foundations merged before the adoption of the new legislation. Attacks against minority religions still occur. A legal framework in line with the ECHR has yet to be established, so that all non-Muslim religious communities and the Alevi community can function without undue constraints, including as regards training of clergy. Further efforts are needed to create an environment conducive to full respect of freedom of religion in practice.

The overall legal framework guaranteeing *women's rights* and gender equality is broadly in place. However, further significant efforts are needed to turn the legal framework into reality and to narrow the gap between men and women in economic participation and opportunity, political empowerment, and access to education. Domestic violence, honour killings and early and forced marriages remain serious problems in some areas of the country. There is a need for further training and awareness-raising on women's rights and gender equality, for both men and women.

Efforts need to be stepped up in all areas related to *children's rights*, including administrative capacity, health, education, the juvenile justice system and child labour. Cases of juveniles tried as adults under the anti-terror law, and facing disproportionate sentences raise serious concerns.

Legislation is still needed to ensure that *trade union rights* are fully respected in line with EU standards and the relevant International Labour Organisation (ILO) conventions, in particular the rights to organise, to strike and to bargain collectively.

The situation with *minority rights* remains unchanged. Some progress has been made on *cultural rights*, especially in the form of starting a national TV channel broadcasting in Kurdish. However, restrictions remain, particularly on the use of languages other than Turkish in private TV and radio broadcasting, in political life, education, and contacts with public services. The legal framework on the use of languages other than Turkish gives room to restrictive interpretations, and implementation is inconsistent. There has been no progress in the situation of the *Roma*, who frequently face discriminatory treatment. Demolitions of Roma districts without provision of alternative housing continue.

As concerns the *East and Southeast*, the government has opened a wide-ranging public debate -covering cultural, political and economic matters- on the Kurdish issue. It is crucial that this debate be followed by concrete measures. The adoption of a Law on the de-mining of the Syrian Border is another positive step. However, the broad interpretation of anti-terror legislation has resulted in undue restrictions on the exercise of fundamental rights. The village guard system still needs to be phased out.

Terrorist attacks by the PKK, which is on the EU list of terrorist organisations, continued and claimed many lives.

Compensation of *internally displaced persons* (IDPs) has continued. However, the government lacks an overall national strategy to address the IDP issue, and needs to step up efforts to address IDPs' needs.

With regard to *regional issues and international obligations*, Turkey has expressed public support for the ongoing negotiations under UN auspices to find a comprehensive settlement of the *Cyprus problem*. However, there has been no progress towards normalisation of bilateral relations with the Republic of Cyprus. Turkey has not fully implemented the Additional Protocol to the Association Agreement and has not removed all obstacles to the free movement of goods, including restrictions on direct transport links with Cyprus.

As regards *relations with Greece*, further exploratory talks were held but no agreement reached on border disputes. Further confidence-building steps have been taken. A considerable number of formal complaints were made by Greece about continued violations of its airspace by Turkey, including flights over Greek islands. Relations with *Bulgaria* remain positive. Good neighbourly relations remain key.

Turkey continues to play a positive role in the *Western Balkans*.

Since June 2009, Turkey holds the rotating Chairmanship of the South East European Cooperation Process (SEECP).

The **economy** of Turkey contracted following the drop of both external and domestic demand, in particular investment. However, the impact of the crisis was largely limited to the real sector of the economy also due to previous structural reforms and countercyclical measures. Macroeconomic stability has been largely preserved. Inflation decreased significantly, mainly because pressures stemming from energy inputs and previously buoyant economic activity eased. Unemployment increased significantly. In a difficult economic environment, the structural reform process has somewhat decelerated, in particular in the first half of 2009. The absence of credible fiscal plans and anchors added some uncertainty to the investment climate.

As regards the **economic criteria**, Turkey is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its comprehensive reform programme in order to address structural weaknesses.

The consensus on economic policy essentials has been maintained under the current challenging circumstances. Turkey accommodated demands for expansionary policies to counter the marked economic contraction and largely embedded them in a broader development strategy entailing higher public investment, job creation and sectoral reforms. Some progress was made in upgrading the country's human and physical capital, although the economic crisis represents a challenge to this process. Access to external financing remained open and the official reserves declined only moderately from a high level. External imbalances were reduced significantly and inflationary pressures subsided. Privatisation continued with some major operations, in particular in the energy sector. In spite of several bouts of global financial instability, the Turkish financial sector has shown remarkable resilience. Turkey diversified its trade towards new markets, thereby partly alleviating the impact of the crisis.

However, while the anti-crisis fiscal measures cushioned somewhat the economic downturn, they could put benefits from previous years of fiscal consolidation and medium-term sustainable policies at risk if they are not withdrawn timely. Measures to increase fiscal transparency were put on hold and even reversed in some cases. Labour market conditions became increasingly challenging and unemployment increased sharply. Job creation

continued to be hampered, notably by a skills mismatch between labour demand and supply, relatively high social contribution rates and by the rigidity of employment practices. In spite of various new initiatives by the Turkish government, the economic crisis is complicating the access of SMEs to finance and slowing down the sectoral transformation of the Turkish economy. The allocation of state aid continued to lack transparency. While market entry has benefited from the adoption of new legislation, there are still obstacles in market exit. The legal environment, and in particular court procedures, pose practical challenges and create obstacles to a better business environment. Turkey adopted a comprehensive action plan to reduce the informal economy, which remains an important challenge.

Turkey continued improving its **ability to take on the obligations of membership**. Progress, at times uneven, was made in most areas. Alignment is advanced in certain areas, such as free movement of goods, intellectual property rights, anti-trust policy, energy, enterprise and industrial policy, consumer protection, statistics, Trans-European Networks, and science and research. Efforts need to continue to pursue alignment in areas such as environment, state aid, social policy and employment, company law, public procurement, food safety, veterinary and phytosanitary policies and free movement of services. As regards the Customs Union and external relations, alignment needs to be completed, particularly with regard to coordination of positions in the WTO. A number of longstanding trade irritants remain unresolved and new ones have been created. It is essential that Turkey respects fully its commitments under the Customs Union. For most areas it is crucial that Turkey improves its administrative capacity to cope with the *acquis*.

With regards to *free movement of goods* legislative alignment is quite advanced, but limited progress was made in the reporting period. Trade has been increasingly hampered by technical barriers related to conformity assessment and standardisation. Alignment in the areas *right of establishment and the freedom to provide services* is at an early stage. No progress has been recorded in the field of postal services, nor on mutual recognition of professional qualifications. As regards the *free movement of capital* Turkey made some progress, in particular concerning the action plans on capital movements and payments and on anti-money-laundering. Turkey made progress on liberalisation of its insurance legislation. However, alignment with the *acquis* on capital movements and payments remains limited. Little progress has been made in the area of *freedom of movement for workers*. Alignment is at an early stage.

Some progress can be reported in the area of *public procurement*, in particular with regards to administrative capacity; some contracting authorities indicate good procurement practices. However, the strategy for the reforms necessary to ensure legislative alignment and institutional capacity-building is still outstanding. Derogations from the general provisions are increasing, as are domestic preferences, reducing competition and efficiency in public tenders. As regards *company law* no substantial progress can be noted in the reporting period. The new Commercial Code has not been adopted. Alignment on *intellectual property law* is relatively advanced. Coordination and cooperation between the different IPR-related public bodies and their specialisation improved further. However, enforcement remains insufficient. The adoption of the aligned and updated laws regulating intellectual and industrial property rights, including criminal sanctions, is crucial.

Turkey shows a high level of alignment in the field of *anti-trust*, including its merger control rules. However, no further legal alignment in the area of *state aid* can be reported and the long-awaited state aid law is still pending.

Some progress has been made in the area of *financial services*. Turkey's legislation is partially aligned with the *acquis* in all three sub-areas of financial services. With regard to *information society and the media* some progress can be reported in the area of electronic communications. However, adoption of implementing legislation is key to ensure an effective impact of the primary law on the market. There has been little progress in the area of audiovisual policy.

In the area of *agriculture and rural development* alignment with the *acquis* remains limited. Current agricultural support policies and strategic policy-making are increasingly dissociated from the CAP, while the slipping timetable for accreditation of the IPARD structures reveals difficulties in setting up functioning administrative and organisational structures and procedures for the management of rural development funds in line with EU standards. Technical barriers to trade in bovine products, in breach of bilateral commitments, remain an urgent issue. Overall, progress has been limited in this area. Turkey has made limited progress on *food safety, veterinary and phytosanitary policy*. Efforts continued, but transposition and implementation of the *acquis* in this area is still at an early stage. In *fisheries* some progress has been made on resource and fleet management and implementation of international agreements. However, no progress has been made on legislative alignment in this chapter.

Turkey has made limited progress on alignment in the *transport sector*. Implementation capacity is lagging behind in the road sector and no progress can be reported in the rail sector. There has been limited progress on air transport. The lack of communications between air traffic control centres in Turkey and the Republic of Cyprus continues seriously to compromise air safety. Turkey remains outside the efforts to integrate European airspace. Progress in the maritime sector has been limited, the move of Turkey to the white list of the Paris MoU confirms Turkey's good performance as a flag state.

There has been some, but uneven, progress in the *energy* sector. Developments on renewable energy, energy efficiency and the electricity market have been encouraging. However, in the cases of natural gas, nuclear energy, nuclear safety and radiation protection Turkey needs to implement its legislation and strategies.

On *taxation* there has been progress towards legislative alignment, in particular towards reducing the discriminatory taxation on alcoholic beverages. However, several discrepancies need to be addressed before achieving full alignment.

Turkey has made some progress on *economic and monetary policy*. Alignment with the *acquis* in the field of monetary policy remains incomplete. There are still shortcomings in the legal framework, for instance as regards the full independence of the Central Bank, prohibition of monetary financing of the public sector and prohibition of privileged access for the public sector to financial markets.

Turkey made limited progress in the field of *social policy and employment*. The establishment of a Parliamentary Commission on Equal Opportunities for Men and Women is a positive step. Preparations for participation in the European Social Fund have accelerated. However, the legislation on labour law, health and safety at work and on anti-discrimination is not in line with EU standards. There has been no progress towards achieving full trade union rights in line with EU standards and ILO Conventions. Women's participation in the labour market is very low. Efforts to combat undeclared work and social exclusion need to be stepped up.

In the area of *enterprise and industrial policy* Turkey has made further progress, in particular in preparing a new industrial strategy and new sectoral strategies, which now need to be

completed and published. There is also a wider availability of enterprise and industrial policy instruments and some improvements in the business environment. Turkey has achieved a sufficient level of alignment with the *acquis* in the field of enterprise and industrial policy.

Turkey has made some progress in the area of *trans-European networks*. In July 2009 Turkey signed the Intergovernmental Agreement on the Nabucco gas pipeline. This project is an important strategic step towards closer energy cooperation between the EU, Turkey and other States in the region as well as towards the diversification of energy sources. The timely completion of the Southern Gas corridor, through notably the swift implementation of the Nabucco Intergovernmental Agreement, remains one of the EU's highest energy security priorities. Some progress can be reported in the field of *regional policy and co-ordination of structural instruments*. The legislative and institutional framework for implementation of IPA components III and IV was finalised, local and regional stakeholders were involved in preparing projects and further development agencies were set up. However, further strengthening of administrative capacity is needed. Overall, Turkey's alignment with the *acquis* in this chapter remains limited.

As regards the *judiciary*, the adoption by the government of the judicial reform strategy is a positive step. The measures taken to increase staff and resources are also positive and need to be continued. However, concerns about the independence, impartiality and effectiveness of the judiciary have yet to be addressed. With respect to *anti-corruption*, there has been some progress on strengthening the legislation and institutional set-up to fight corruption. Corruption, however, remains prevalent in many areas. The adoption and effective implementation of the national anti-corruption strategy will be crucial.

Some, but uneven, progress was made on *justice, freedom and security*. Turkey has achieved limited progress on external borders and Schengen, as well as in the field of migration and asylum. In the face of a sharp increase of asylum seekers efforts need to continue to reorganise the system. Turkey recently accepted to resume formal negotiations on an EC-Turkey readmission agreement.

In the area of *research*, Turkey has made substantial efforts in increasing its participation under the Seventh EC Framework programme for Research and Development and in improving its national research capacity. However, further efforts are needed for integration into the European Research Area.

On *environment*, Turkey has made progress in the field of chemicals and on horizontal legislation by signing the Kyoto Protocol. Some progress can be reported on waste, air quality, industrial pollution, risk management and chemicals. However, the overall level of alignment remains insufficient. Turkey has made no progress in the areas of water quality, nature protection and GMOs.

Some progress has been made on *consumer and health protection*. However, as regards consumer protection, more efforts remain necessary, in particular on non-safety-related issues and to ensure due enforcement of consumer protection in general. In the area of public health, some progress can be reported, in particular on tobacco control and on strengthening the administrative capacity on communicable diseases.

Turkey has achieved a high level of alignment in the field of *customs* legislation, thanks to its Customs Union with the EU. Nevertheless, further alignment with the EU *acquis* is still needed in some areas, such as free-trade zones and customs duty relief. Turkey has achieved a

high level of alignment in *external relations*, however, particularly with regard to coordination of positions in the WTO, alignment needs to be completed. A number of longstanding trade irritants remain unresolved and continue to disrupt the proper functioning of the Customs Union.

Turkey's alignment with the EU's *common foreign and security policy* continued. Turkey has further strengthened its contribution to the stabilisation of regions such as the South Caucasus and the Middle East. Turkey has strengthened its diplomatic relations with Iraq, including contacts with the Kurdish regional government. Significant diplomatic efforts to normalise relations with Armenia were made.

Turkey is contributing substantially to ESDP and seeking greater involvement in ESDP activities. However, Turkey objects to EU-NATO cooperation which would involve all EU Member States. Turkey has not aligned with the EU position on membership of the Wassenaar Arrangement.

Limited progress can be reported in the area of *financial control*, in which alignment is fairly advanced. Legislation implementing the public financial management and control (PFMC) law is in place, but a number of amendments relating to internal control are still missing and revision of the PIFC policy paper and action plan has not been completed. The External Audit Law, which would bring external audits into line with relevant international standards, has not been adopted. The anti-fraud cooperation structure remains to be developed. Turkey has re-minted Turkish coins to eliminate similarities with Euro coins. Turkey's alignment with the basic principles and institutions of the *acquis* in the area of *financial and budgetary* provisions is well advanced.